
JE SUIS CE QUI A ÉTÉ
CE QUI EST ET CE QUI SERA
LE VOILE QUI ME COUVRE

L. B. Franklin, *President*
Guaranty Trust Company of New York, New York

Proceedings *of the* Fourth Annual Convention *of the* Investment Bankers Association *of* America

Including
Constitution and By-Laws,
Lists of Officers and Committees
and Members of the
Association

Held
September 20, 21 and 22, 1915
at Denver

Compiled by
Frederick R. Fenton
Secretary The Investment Bankers Association of America
111 West Monroe Street, Chicago
1915

The Lakeside Press
R. R. DONNELLEY & SONS COMPANY
CHICAGO

DISCLAIMER

"*Resolved:* That the Investment Bankers Association of America disclaims all responsibility and liability for opinions expressed in any address made at its conventions, or papers printed in the proceedings of such conventions, unless endorsed by special action of the Board of Governors, or the members in convention assembled."

(Adopted by the Board of Governors, August 8, 1913.)

OFFICERS

INVESTMENT BANKERS ASSOCIATION OF AMERICA

1915–1916

PRESIDENT

Lewis B. Franklin . . . . New York
Guaranty Trust Company of New York

VICE-PRESIDENTS

Allen G. Hoyt . . . . New York
N. W. Halsey & Company

John E. Blunt, Jr. . . . . Chicago
Merchants Loan & Trust Company

Stedman Buttrick . . . . Boston
Estabrook & Company

A. C. Foster . . . . Denver
Sweet, Causey, Foster & Company

C. Edgar Elliott . . . . Chicago
Breed, Elliott & Harrison

SECRETARY

Frederick R. Fenton . . . . Chicago
Devitt, Tremble & Company

TREASURER

J. Herndon Smith . . . . St. Louis
Smith, Moore & Company

BOARD OF GOVERNORS

TERMS EXPIRING 1916

A. B. Leach	A. B. Leach & Co.	New York
Samuel L. Fuller	Kissel, Kinnicutt & Co.	New York
William West	Henry & West	Philadelphia
Barrett Wendell, Jr.	Lee, Higginson & Co.	Boston
Challen R. Parker	Angle & London Paris National Bank	San Francisco
Wm. L. Ross	Second Ward Savings Bank	Milwaukee
Eugene M. Stevens	Stevens, Chapman & Co.	Minneapolis
H. P. Wright	H. P. Wright Investment Co.	Kansas City
Charles H. Gilman	Charles H. Gilman & Co.	Portland, Me.

TERMS EXPIRING 1917

George C. Clark, Jr.	Clark, Dodge & Co.	New York
Lawrence Chamberlain	Hemphill, White & Chamberlain	New York
Charles W. McNear	C. W. McNear & Co.	Chicago
George W. Kendrick III	E. W. Clark & Co.	Philadelphia
William R. Compton	Wm. R. Compton Co.	St. Louis
John E. Oldham	Merrill, Oldham & Co.	Boston
Warren S. Hayden	Hayden, Miller & Co.	Cleveland
Wm. G. Baker, Jr.	Baker, Watts & Co.	Baltimore

TERMS EXPIRING 1918

Richard L. Morris	Kean, Taylor & Co.	New York
George W. Hodges	Remick, Hodges & Co.	New York
George H. Taylor	E. H. Rollins & Sons	Chicago
H. L. Stuart	N. W. Halsey & Co.	Chicago
J. Sheppard Smith	Mississippi Valley Trust Co.	St. Louis
Reamy Eugene Field	Field, Richards & Co.	Cincinnati
Charles L. Stacy	Stacy & Braun	Toledo
Lynn H. Dinkins	Interstate Trust & Banking Co.	New Orleans

George B. Caldwell — New York

Fourth Annual Convention *of the* Investment Bankers Association *of* America

The President: Gentlemen, I wish as far as you may you will come forward and sit on the forward seats. I would like to have the watchword of this convention "efficiency and promptness."

We have come a long distance. We are here, first, primarily for a business session. Our Denver committee has graciously provided for us a very interesting entertainment; I am sure that we will, each of us, enjoy it to the limit. Those of us who have come from the East have come into a new world; we have come to see the affairs and the doings of today from a new hillside, to get the viewpoint of this great Western world which I think we in the East, especially, need at times to see, and hear and feel.

We are going to dispense this morning with the roll call. I am sure that every one of us who has attended a convention, or a meeting of any kind, has felt a heart-sinking, a feeling of weariness when the chairman, or someone interested in the convention, takes from the table a big volume of papers.

I have written what I am to say only because I am desirous of sticking closely to the text. I have asked each member of our committees, chairman of the committee, to bring down into the shortest possible space what he has to report. Primarily and above everything it is the desire of the officers and the committees of this Investment Bankers Association of America that we shall give privileges to every member on the floor to express his views. We want to go back with just as wide a viewpoint on the subjects we are to discuss as we may, so if you will just bear with me I will read a word of what I have to say to the convention, and then we will open our regular proceedings.

ANNUAL ADDRESS OF THE PRESIDENT

A. B. Leach
A. B. Leach & Company, New York

Gentlemen of the Convention:

May I not welcome you to this, the fourth convention of the Investment Bankers Association of America? We all have cause to be proud of the progress that our Association has made since its organization, of the increase in membership, of the increase in interest, of the increase in efficiency of service that we have been able to give to our membership. Most of all do I feel that we should congratulate ourselves upon the great step forward this Association has been able to bring about in the investment bankers' world, in closer relationship, in the knowledge of each other and the purpose which we serve in the distribution of the wealth of this country, in the upbuilding of its industries, in the protection of American investments and in doing our part in placing America at the highest point of financial, industrial and commercial achievement. The Prophets, since the days of old, have shown us over and over again that most of their prophecies were wrong and that they reached out in tomorrow for results which did not come. With the knowledge of what has happened, I dare say that we live in a rich age, and we shall look backward, I believe, in the days to come, and feel that it was a privilege to live and to be a part of the majestic drama which is passing upon the stage of time today, that it is a privilege perhaps which has never been given to any other generation. This old world is passing through a wonderful experience, the tragedies of love and hate, ambition, intrigue are being enacted on a gigantic stage. Like those who could not see the forests because of the trees, we perhaps today are too close to these wonderful, and let us confess at times, frightful developments, to really appreciate their magnitude and their meaning. In the days to come, I believe we will look back at these days with wonder, with awe, with a feeling of gratitude that through all of it there seemed to have run an Almighty purpose. Out of the deep valleys of distress and terror through which the world is now passing, we shall find an easier climb to higher hilltops and brighter visions and greater possibilities, to more humanity, to broader liberty of the peoples,

than as yet has been the privilege of man. We can hope that from this mighty conflict now raging, which tries men's souls today, millions of shackles shall fall from men's bodies and minds and that the new freedom, the dream of the centuries, will prove not to have been a dream, but something of every day.

I am not going to burden you with a long detailed statement of the doings of our committees and of the Board of Governors during the past year, but may I just say in passing that your Association has had this year the most efficient, most painstaking, most thoughtful committees that I have ever had the privilege to be connected with, and I believe every man has done yeoman service for the good of our common cause. The reports of these committees and the reports of the secretary and treasurer will show that the Association is in a most excellent condition, that it is out of debt and prepared for a new year of great progress.

There are but two or three questions which I would like the privilege of presenting to the thought of this convention—they are the subjects which have interested most closely our members, have interested every one in this country who has the public benefit at heart.

The first of these I would like to take up relates to railroad securities, the second the public service companies, and the last the blue sky regulations.

Through our membership, there has been placed in this country and in Europe a very large percentage of all of the railroad bonds and stocks, the proceeds of which have served to build up that magnificent system of transportation lines of which this country has reason to be proud. Savings banks, insurance companies and the general investment public are the owners today of these securities, while a considerable proportion of them is held abroad. In view of this situation, a very strong and able committee of our members attended a session of the Interstate Commerce Commission when the eastern railroad rate question was under consideration. They presented, with all possible emphasis, that the investor's position in relation to the rate question is that the railroads should be granted the increase asked for, whatever may have been the errors or failures or mistakes of mind or purpose in the issuing of some of these securities, the fact remains that the railroads have become very

important if, not the most important industry of this country and the investments in railroad securities form a very large percentage of the security for the savings of our people, in more than one way.

The railroads today face new conditions. They face them—

First, in the character of the service they are called upon to render;

Second, in the enormous volume of freight and passenger traffic to be handled;

Third, in the new equipment necessary; safety appliances prescribed by Commissions.

Fourth, in the always pressing need of new terminals, additional tracks and sidings.

The Interstate Commerce Commission seems to place great stress upon the need of a physical valuation of the railroads, and seems to believe that the physical valuation should be made a basis for the interest return upon the capital actually shown in physical property today and that rates should be made on that as a base.

I submit to the just and reasonable consideration of the American people, and primarily the American shipping and business men, whether in any business with which we are connected, which has taken a number of years to build up, it would be fair to make its valuation depend absolutely upon the physical property available. Vast sums of money have been spent not only in the development, but also in intangible assets. I do not mean now that necessarily we should capitalize franchises and rights, for from the Commission's viewpoint these rights and franchises are not an asset, but are available only to earn a deficit. The physical valuation of the railway properties will cost a large sum of money (running into many millions), but it will be of little value and practically obsolete when completed, and serve but a small purpose in just and reasonable rate making. The difference to the farmer in the sale of his products, the difference to the merchant in the cost of his goods, the difference to any shipper in the advance of rates requested by the railroads, is so small that it is practically a negligible quantity.

May I not submit too that the watchword of Americans and America is "progress." The past of each and every one of us is full of mistakes and regrets, today let us have confidence, and feel

assured that from our errors and mistakes of the past we can reach to higher levels of progress and development for our country and our common good. Whatever the railroads' history in the past has been signifies but little at present to the railroads and the communities they serve unless it teaches us fair treatment for each other and common efforts for the common good. Let us not forget that the railroads are furnishing the life currents of a large portion of the country; they are the largest employers of labor, they are the largest purchasers of supplies and materials, they constitute one of the greatest, if not the greatest, of American industries. The Interstate Commerce Commission—I find no fault and make no criticisms, but simply make the statement—was appointed not alone as guardians of the shipper, but also as the guardians of the railroads, and if our railroads are to succeed, a new vision and a new disposition on the part of this Commission and of the state commissions, must be brought about by the pressure of public sentiment, by the pressure of the business world, by the pressure of the investment world. For the railroads must not only be solvent, but must be in a position to aggressively and actively push forward their development. In this great West, the need for additional railroad facilities, additional mileage, is felt constantly. Increased railroad facilities can do more—and will do more—to develop the country than any other one agency. Take away from the investment world the confidence in railroad securities, the staunch belief that investments in railroads will always receive fair treatment, and the railways of the country face bankruptcy. I could name a long list of railroads which have fallen by the wayside, and are now in the hands of receivers, and although I will agree with the most radical as to the mistakes or errors—and crimes, if you will—that have been committed in the handling of some of these properties, I will say to you, nevertheless, that today is the time to forget; let us leave the past behind and forget what has been done.

The new thought that is in the mind of the railroad managers today is explained by the plan of the Atchison management, carried out by what is known as the "Harmony Special." The railroads are prepared and ready to meet the public on a fair basis, on the basis of service, on the basis of mutual justice. But

the public, and public sentiment, should meet the railroads in a similar manner. What would it benefit the State of Colorado, what would it benefit the country as a whole if as a punishment of the sins of the past, the railroad mileage of the country is forced into the hands of receivers, if lack of confidence in this great American industry is abroad and consequently new developments cease? I insist, there is none. I would like to leave with the Convention, I would like to leave with the State of Colorado, I would like to leave with the vast western world, of which I am proud to be a son, the thought that the day has come for a new alignment of public thought and of public effort, when we shall all join—the shippers, the railroads, the investment world—on the basis that with the conditions of today the necessity for fair treatment accorded to the railroads is imperative, and that, from today on, the public should give the Commission and their servants to understand, if recent developments have not already taught that lesson, that what this country needs is service, what we need is good equipment, what we need is railroads prepared to push developments and this can only be released by such fair treatment of the railroads as will restore the confidence of the public. Until that time, and I believe and hope it is coming nearer every day, we will not get back that degree of prosperity, of which this abundantly resourceful country, when given a fair chance, is capable.

Now a word about public service companies. Through the activities of a large number of the members of the Investment Bankers Association of America, the development of the public utility companies of this country, the building of water and steam power plants, the construction of urban and interurban railways, in short, the construction of all these enterprises, whose services are truly called a public utility, have given to this country a great impetus. Cities and villages have been improved, urban life has been made comfortable and convenient, rapid communication between communities has added to the comfort of travel. The changes in the character of the service, in the form of equipment from the days of the horse car to the modern motor, the changes from the earlier developed plants, equipment for electric lighting and power, have been astonishingly rapid and caused constant expenditures by these companies to keep abreast with the

A. G. Hoyt, *Vice-President*
N. W. Halsey & Co., New York City

trend of the times. These developments have been made possible through the issue of bonds, of preferred and common stocks, distributed to a large range of investors through the investment banking world. In a large number of the states, public service commissions or similar bodies have been organized. The best thought, I believe, both of the public service companies and the banking world is that public service commissions, when properly organized and manned, are a benefit, not only to the community served but also to the public service companies, and an added assurance and security to the investor in the securities of the companies supplying this kind of service. It was considered that with the advent of the public service commissions, we should find that regulated monopoly was the most efficient and economical method for the development of these great industries. In a good many of the states, however, the public service commissions have seemingly felt that it was within their province to grant the demands of the public for lower priced service, for increased service, without giving due consideration to the rights of the public service companies, and to those of the holders of their securities. As in the railroad world, a great amount of discussion has taken place as to the physical valuation of these properties, and here and there, on these valuations an interest return has been computed which, when forced upon the companies, leaves a great many of these properties practically stranded. What I have said in regard to the change of the character of the industry has a very great bearing today upon the actual valuation of these properties as going concerns. If a careful engineer's report is to be made on the actual properties now in use by the public service companies of this country, there should be added to this amount an adequate and reasonable sum for going values. The method of computation, the basis upon which this is to be allowed, may be one on which there may be a difference of opinion, but the fact certainly is that without this no just valuation of the value of these properties can be had. In rate making, considering the hazard of the business, I contend that 6% allowed on a reduced valuation of the public utility property means bankruptcy; it means that new capital will not be available.

In this connection, the cry of public ownership is heard. I believe that the most expensive, the most unsatisfactory, the most

disastrous financial experiment that the American cities could undertake would be public ownership of their public utilities, but unless the public utility companies are to be given fair treatment by the public service commissions, unless the public service commissions are to cease being the champion and advocates of lower rates and greater service and become guardians not only of the public but also of the public service companies, a great disaster to the investments in this country and the public service companies and a great reduction in the service which these companies bring to the public, is sure to follow. This warning is not based upon any superficial reasoning, but is the fruit of a careful lookout on the things that have taken place in the public utility world in recent months. Indeed, the word of warning I utter, I cannot emphasize too strongly. As I have said, regarding rates, I am sure that what the American people demand is good service, advanced, progressive service, developments that will keep in step with and ahead of the growth of our cities and towns. This is possible and will be for our common good, but it is not either possible or probable unless also the public service companies of this country are met in a broad, liberal, reasonable spirit by the public and the public service commissions. The investors who have placed their funds in these public service companies, only ask for justice and an opportunity to join hands with the communities, in which the companies are located, for the upbuilding of these communities. In this western world, where the need of capital and moneys for new improvements and developments is always in evidence, and should bring a large return, may I not urge the consideration of the public officials for a fair, more just consideration of the public utilities companies, not as charity, not perhaps only as a basis of fairness, but on the basis of self interest, on the basis of common good and the benefits of every one who uses public service facilities. Only when this is done a crisis can be averted.

One question definitely relating to the business of investment banking has been very carefully considered by your committee and Board of Governors. You, of course, understand that I refer here to the so-called blue sky legislation. The General Counsel of your Association has undertaken in two or more states to bring action directly questioning the constitutionality of these

acts. We believe that these statutes are so broad that they prevent the right of free contract, that the regulations on the lines proposed is such, that it prohibits all interstate dealings in securities. In endeavoring to reach the dealer in unsound securities, these statutes have been given so wide a scope that they cover any and all transactions, and seriously interfere with, if not prevent, a sound investment banking business. It is of vital interest to the well-being of this country that there be an interchange of securities, and it goes without saying that bona fide securities issued for developments in any part of the country should be readily merchantable in all parts of the country. I know definitely of a number of cases where business which would have been of mutual advantage has been prevented on account of the passage of these acts. My purpose in speaking on this question is that I consider it one of great public interest. I am sure that our members, and I do believe that the public generally, are going to see to it that while the broadest publicity possible in the issuing of securities should be insisted upon, unreasonable and untried regulation should not stand in the way of honest enterprises. Your Association, of course, through its legal agencies, is working seriously in the same direction.

Gentlemen, I have presented three pictures which perhaps have a somewhat gloomy atmosphere, three pictures which bespeak possible disaster even, only because I believe that it is the duty of the investment bankers to say a word in season and out of season to every fellow American showing him the results of action that is now being pressed, and showing them the pathway leading to what I believe will be a great damage to all concerned. Because I paint these pictures in dark hues, do not feel that I am a pessimist. On the contrary, I feel that today, before the American people the beckoning finger of Providence can be seen pointing to a better, a greater, a broader America than ever has yet been known. I feel a hope that we shall be the instruments, and may it be soon, to bring to a close this frightful conflict. I feel that after this conflict America will stand out more than before as a land of freedom, as a land where each individual has the broadest opportunity to develop in himself the highest measure of the talents which the Almighty has given him.

As investment bankers, we face the problem that the capital

which has been expended for the development of this country, derived in the past from Europe, will not be available. We therefore must devise ways and means to furnish moneys for these developments from home capital. This is a broad opportunity, it is a great responsibility, but I feel that the investment bankers will measure up to it, not only so we will serve our country successfully and faithfully, but so we shall find success in our business. Again, there will be resold to this country in enormous volumes—they are coming every day—securities which have been placed in Europe. We could not have them presented to us at a better time. Never before in the history of the country have we been in a position where they could be absorbed and repurchased as they can today; it will make probably, not a creditor nation, but certainly a nation very much nearer that point than ever before. The interest and dividend moneys which have been going to the other side will be paid to our own people in a larger measure than before. We also face the problem as to what will be the price of money, the return on bonds and stock investments. After the close of the war, when the time of readjustment comes, this vast volume of paper which is now being used in Europe to finance the war will have to be redeemed, and we will get back to a gold basis. The problem is so complex that it is difficult to prophesy, but I believe that this reconstruction period will be faced by the American investing public with a smaller loss, and that we will come out of it in the best position of any country in the world. I have heard it prophesied by the very wise that at the end of the war we would face a financial catastrophe, that wreckage and repudiation would be worldwide. I do not believe this. This regeneration work in business, this calling in of credits will be gradual, the nations must face a long period of economy, they must face a long period of high taxation. Europe will not repudiate its indebtedness. Europe will be able to pay, and if we must bear a share of the terrific destruction, I believe that America will come out richer and in a stronger financial and business position than ever before.

And now about our work here, just one word. In this Convention, I felt that rather than have a series of long papers, there should be given to every member of the Convention an opportunity to express his opinions, and bring to each discussion the wisdom

and thought that he felt would most interest us. I feel confident that this will be of great interest, and I feel confident that it will be of great benefit to all of us.

Gentlemen of the Convention, I thank you. (Applause.)

. . . .

The President: I said a few moments ago that we had come a long way—a good many of us, and we have come with the hope that we can be of mutual benefit. We have come believing that this should be a business session. We have come to have a good time, but this session can be at its best if its proceedings shall push forward as quickly, as expeditiously, as efficiently as may be.

With your permission I should like to make one or two suggestions, first, owing to the shortcomings of your chairman, perhaps, but also that every man may really appreciate what is said, I am going to ask every man who rises to speak, when he is recognized, that he first speak his own name, the name of the concern that he represents and the city from which he comes. It will avoid mistakes, and it will insure a hearing to everyone. One further thought may I give you: I think there is not a man here who has not attended a convention and gone away with a feeling of, I think, more in sorrow than in anger, that he had listened for three quarters of an hour to some good soul who had a "message to Garcia" to deliver and did not know how to deliver it, and it took him a long time. I am going, therefore, to make it a rule, if it is your pleasure, that after a man is recognized, one of the secretaries here will put a stop-watch on him. Every man is entitled to five minutes; at the end of five minutes I am going to ask the Secretary to ring a bell, and the speaker has then two minutes to finish. Gentlemen, if there is anything about this convention that is worth while, it can be said in five minutes; that is plenty. Let us print it and we will give all of you leave to print, but let us finish in five minutes and sit down; we will all enjoy it better, and it will give the other man a chance.

May I make one or two other announcements, about banquet reservations. Our good friends in Denver have arranged a most exceptional entertainment in the way of a banquet on Wednesday. We want every one to be there, we would like every man here to have the best seat in the house, but the way to get

it is to put in reservations, and they must be put in today before twelve o'clock. Now, please do not leave it for somebody else to do. Do it, and do it today.

One other announcement may I make: Under our Constitution it is necessary that resolutions shall be presented prior to the meeting, but the Convention has the power to permit the presentation of these resolutions. It will be essential, however, that anything in the nature of a resolution to come before this Convention should be in the hands of the Secretary not later than twelve o'clock today.

The Secretary: The Board meets at twelve-thirty.

The President: Any resolution not presented at that time, I shall have to take the position that it cannot be recognized. Gentlemen, I thank you. Mr. Secretary. (Applause).

SECRETARY'S FOURTH ANNUAL REPORT

Mr. President and Gentlemen of the Convention:

I submit herewith the Fourth Annual Report of the Secretary's Office, for the period from September 1st, 1914 to August 31st, 1915.

In submitting this, my Fourth Annual Report, I cannot but view the work of the Association in the past with a great deal of pleasure. From the standpoint of the investment banker the year just closed was not very propituous, but from the viewpoint of the Association it has been a most successful year.

Bulletin Service

With the growth of the Association each year the "I. B. A. of A. Bulletin" has likewise enjoyed a corresponding growth. It seems to me that there is nothing that has aided us more in laying a broad foundation than the bulletin service. The Bulletin has come to be looked upon as the official organ of the Investment Bankers Association of America. When I say official organ, I mean this in its broadest and most comprehensive terms.

An official organ of any association or organization in order to be of value to the individual units, or members, must publish facts, reports, opinions and topics that are germain to the business. These reports must come from the committees of the association,

as it is only through such bodies that the policies of the association are worked out.

The committees of the Investment Bankers Association of America are composed of men who are experts in their particular profession. This Association, or any other, for that matter, would be unable to pay for the high character of services rendered by these experts during the year. The articles and reports appearing in our Bulletins are not written by theorists, but by practical men who are making the subject of investment banking their life work.

The Association today is offering to its members, through the medium of the Bulletin, the advice and counsel of these very experts. Each issue of the Bulletin contains something emanating from the men composing our committees. Their time and their advice have been given freely and without compensation.

Volume No. III of the "I. B. A. of A. Bulletin" covers the period from September 1, 1914 to August 31, 1915, during which time thirteen numbers were published. A sufficient number were printed of each issue, and retained until the close of the year. These are being bound in book form, and will be furnished to each member of the Association.

Over 350 pages of printed matter have been distributed to our members during the past year in our Bulletins. A wide range of topics was covered; among them being, programs of the Third and Fourth Annual Conventions, and other data in connection therewith; reports of the committees on Municipal Bonds, General Counsel, Public Service Corporations, Irrigation, Reclamation and Agricultural Credits, Taxation, Foreign Relations, Railroad Bonds and Equipment Trusts; and Publicity Committees. Other matters reviewed have been, the Five Per Cent Rate Case; opinions of General Counsel on the War Revenue Tax; Iowa (1915) Blue Sky Law; Kansas (1915) Blue Sky Law; opinion on the right of dealers to transact business by mail and telegraph in states having Blue Sky Laws; Blue Sky Laws of the following states: Michigan, Oregon, North Dakota, Iowa, Kansas, Arkansas, West Virginia and Louisiana. The decision of the court holding the West Virginia Blue Sky Law invalid was also covered, as well as the Tennessee Jitney Bus Law, and the Michigan Secured Debts Tax Law.

It will be seen very readily that nothing has appeared in the Bulletin which was not germain to the business of our members. Nothing has appeared that smacked of personalism. A number of improvements will be added to the Bulletin this year, such as the addition of an index in each issue, and the paging of the Bulletins from the commencement of the fiscal year to the close thereof. This will facilitate a yearly index being compiled.

Statistical Information

During the past year the Association has made some strides in the matter of building up a statistical library. The Committee on Foreign Relations has contributed the greater part of our library, which deals for the most part with European financial statistics. I believe that it would be well if each committtee of the Association followed the practice of the Foreign Relations Committee, and filed with the Office of the Secretary books relating to their particular field of endeavor. In the beginning the matter may seem insignificant, but in the years to come a vast amount of information will have been collected.

Let not this suggestion apply to committees only. If any member of the Association has books or statistical information which they deem of general or special interest, and will file them with the Secretary's Office, I venture to say that it is but a matter of a short time until the files of the Association will come to be looked upon as a most valuable asset.

Membership

Owing to the conditions existing in Europe, and the resultant effect upon financial conditions in the United States it has been very difficult to make any consistent campaign for new members. The Association has now reached the stage in its history where growth in membership by leaps and bounds is no longer possible. We have within the Association today practically all the eligible bond houses of the United States.

On September 1st the membership of the Association stood 340 Main Offices, and 176 Branch Offices.

The Constitution and By-Laws (By-Law No. 1) provides that the membership shall be divided into three classes — "A," "B," and "C." Class "A" pays annual dues of $50.00, Class "B"

$100.00 and Class "C" $150.00. It is unnecessary for me to go into further detail on this subject, except to say that at this time we have:

Class "A" members	128
Class "B" members	176
Class "C" members	36

Immediately after our Third Annual Convention, in Philadelphia, it was necessary to take up the classification of our membership. This task consumed the greater part of two months, and in that length of time nearly 2,500 letters were sent out bearing on this subject. I am able to state positively that we did not lose a single member by reason of this classification, and the resultant raising of annual dues. What losses we have sustained during the past year have come about by reason of houses withdrawing from the bond business and consolidations.

The Secretary's Office maintains a record of our membership by classes, but under By-Law No. 1, details as to this are forbidden publication. The report of the Membership Committee will take up more in detail the question of membership, and it is not therefore, my desire to encroach upon the report of Mr. Fiske.

Routine Work

Taking up the matter of routine work that has passed through the Secretary's Office during the past year, it is a very difficult matter to gain any conception of this by a review of mere figures. As a matter of record, however, I give below the figures:—

Outgoing Mail

Fiscal year, Sept. 1, 1914 to Aug. 31, 1915.

First Class	34,525
Proceedings	1,500
Bulletins	19,500
"Principles of Taxation"	600
Miscellaneous	344
Total outgoing Mail	56,469

Incoming Mail

Fiscal Year, Sept. 1, 1914 to Aug. 31, 1915.

First Class	16,182	
Books	21	
Daily Papers	350	
Weekly Papers	780	
Monthly Papers	264	
Total Incoming Mail	17,597	
Total all Mail handled		74,066

Financial

Pursuant to recommendations of the Finance and Auditing Committee of last year certain changes were made in the manner of disbursing the funds of the Association. All disbursements are made by voucher, in duplicate form. The original is sent to the payee, while the duplicate and the original bill are retained on file in the Secretary's Office. We have found this very satisfactory, and it also enables us to have our accounts audited with more ease.

The budget system has been instituted during the past year, and I deem this a most successful departure from our practice. It has served the purpose of keeping the disbursements within certain limits, and has at the same time permitted greater freedom on the part of the several committee chairmen in directing the work of their committees.

The income of the Association is now $30,000.00, in round numbers. We entered the fiscal year of 1914–15 owing over $8,000.00 for legal expenses in connection with blue sky suits. This has been paid in full, and we commence the present fiscal year with a substantial balance.

With the full income available for the work of the coming year, I believe this Association will be able to carry out a stronger and a more constructive program than it has been able in the past.

The Press

We are under continued obligations to the Press of this country for the strong support which they have given this association.

Any constructive work we have undertaken has received prompt recognition from the press and wide publicity.

It is primarily through the Press that the work of any organization reaches the public. In the final reckoning we must rely upon this medium of news distribution. I have nothing but praise for the treatment we have received from the Press of this country. They have been eminently fair.

Committees, etc.

With the co-operation of the Committees and General Counsel, the Officers, and each individual member of the Board of Governors, the Secretary's Office has been able to get in close touch with the membership. I am pleased to say that this has been done at the minimum of expense through the small but very efficient organization which the office of the Secretary has had.

Closing Remarks

This Association came into existence with a well defined purpose, and while we have only commenced to do a few of the many things which we shall be able to accomplish in the future for the betterment of the investor and the investment banker, I believe that in our short history we have made considerable progress, and with the continued efforts of the officers and members of this Association working together, our future is assured. The Investment Bankers Association of America, already recognized as one of the important associations of this country, has come to stay and the investment public and the members of this association will receive benefits which are only made possible through well organized efforts.

F. R. Fenton, *Secretary*

Chicago, Sept. 1, 1915.

The President: Unless there is some objection, this report will be received and placed on file. We will now have the report of the Treasurer.

REPORT OF THE TREASURER

To the President and Members of the Investment Bankers Association of America:

Balance Cash, Aug. 31, 1914		$ 742.32
Dues Collected for Year ending Aug. 31		29,100.00
Initiation Fees, collected		2,200.00
Interest received on balances		172.46
Total Receipts		$32,214.78
Vouchers Paid	$28,698.19	
Vouchers drawn but not presented	1,412.61	
Total disbursements		$30,110.80
Balance Cash in Bank	$ 1,703.98	
Cash in Secretary's office	200.00	
Total Cash on hand		$ 1,903.98

Attached hereto is certificate of the Mississippi Valley Trust Co. of cash on deposit.

I wish to express my particular thanks and appreciation to the Secretary and the Secretary's Assistant, Mr. Schray, for their courtesy and assistance.

Respectfully submitted,

J. Herndon Smith, *Treasurer.*

Mississippi Valley Trust Company

St. Louis, Missouri

It is Hereby Certified, That at the close of business on Aug. 31, 1915, the sum of Thirty-three hundred sixteen and fifty-nine one-hundredths Dollars was on deposit in this Company to the credit of Investment Bankers Association of America.

C. K. Turner, Jr., *Assistant Secretary.*

JOHN E. BLUNT, JR., *Vice-President*
Merchants Loan & Trust Company, Chicago

The President: Unless there are some objections this will be received and printed in the proceedings. We will now have the report of the finance and auditing committee from Mr. John E. Blunt of Chicago.

REPORT OF THE FINANCE COMMITTEE

FOR YEAR ENDING AUGUST 31, 1915

The report of this Committee is very brief. A year ago our bank balance was $742.32, and we had unpaid bills principally due our General Counsel of about $8,000. The Finance Committee has been concerned chiefly in keeping the "lid" closed as tightly as possible, and we are able to close the year with a cash balance of $1,903.98 and all bills paid, except a few items for the month of August, amounting to $104.61, which were not received until after the books had been closed.

In pursuing this policy of retrenchment, the Committee has had the active support of the Board of Directors and the Chairmen of the other Committees. In the coming year we will not have this deficit to make up, and we can pursue a more liberal policy, which should result in increasing the usefulness of the Association to its members.

The accounts have been audited by Messrs. Andersen, De Lany & Company, Certified Public Accountants, and I attach hereto detailed statement of receipts and disbursements, the correctness of which has been certified to by them.

Respectfully submitted,

J. E. Blunt, Jr.,

Chairman, Finance and Auditing Committee.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

FOR THE YEAR ENDING AUGUST 31, 1915

Receipts:

Annual Dues	$29,100.00
Initiation Fees	2,200.00
Interest on Daily Bank Balances	172.46
	$31,472.46
Balance Cash on hand and in bank at beginning of year	742.32
	$32,214.78

DISBURSEMENTS:

Legislative Committee, General	$ 654.25
Legislative Committee, "Blue Sky" Legislation	3,490.50
General Counsel	10,813.64
Salaries —	
Treasurer's Office	50.00
Secretary's Office	4,562.10
Publication of Year Book	1,398.00
Printing, Postage and Stationery	1,731.30
Annual Convention Expenses	1,096.12
Rent	1,200.00
Bulletin Service	2,059.70
Furniture and Fixtures	24.50
Telephone and Telegraph	359.16
Committee on Foreign Relations	321.82
Traveling Expenses	416.70
Municipal Bond Committee	188.75
Publicity Committee	310.00
Auditing Committee	75.00
Committee on Railroad Bonds and Equipment Notes	547.50
Taxation Committee	547.26
Sundries	464.50
	$30,310.80
Balance Cash in bank and on hand —	
In Bank	1,703.98
Petty Cash Fund (Secretary's Office)	200.00
	$32,214.78

TO THE BOARD OF GOVERNORS,
INVESTMENT BANKERS ASSOCIATION OF AMERICA,
CHICAGO, ILLINOIS.

Dear Sirs: Having completed the usual audit of the books and accounts of the Investment Bankers Association of America for the fiscal year ending August 31, 1915, we have prepared and submit herewith the following Exhibits:

Exhibit I — Balance Sheet at August 31, 1915

Exhibit II — Comparative Statement of Cash Receipts and Disbursements for the fiscal years 1914 and 1915

CASH RECEIPTS AND DISBURSEMENTS

We have prepared, in comparative form, a detailed statement of the Cash Receipts and Disbursements for the fiscal years 1914 and 1915 which is appended hereto as Exhibit II. A condensed statement of these transactions is given and will, no doubt, be of interest:

Particulars	*Fiscal year ending August 31* *1914*	*1915*	*Increase or Decrease*
CASH ON HAND AND IN BANK AT BEGINNING	$2,781.82	$742.32	$2,039.50
RECEIPTS DURING YEAR:			
Annual Dues	$18,760.00	$29,100.00	$10,340.00
Initiation Fees	2,500.00	2,200.00	300.00*
Contributions "Blue Sky" Legislation	13,220.50	....	13,220.50*
Interest on Daily Bank Balances	161.12	172.46	11.34
	$34,641.62	$31,472.46	$3,169.16*
	$37,423.44	$32,214.78	$5,208.66*
DISBURSEMENTS:			
Legislative Committee, General	$2,714.16	$654.25	$2,059.91*
Legislative Committee "Blue Sky" Legislation	16,850.28	3,490.50	13,359.78*
General Counsel	......	10,813.64	10,813.64
Salaries	7,654.08	4,612.10	3,041.98*
Publication of Year Book	1,649.55	1,398.00	251.55*
Printing, Postage and Stationery	1,438.14	1,731.30	293.16
Annual Convention Expenses	915.57	1,096.12	180.55
Rent	1,200.00	1,200.00	......
Bulletin Service	1,984.80	2,059.70	74.90
Miscellaneous Expenses	2,274.54	3,255.19	980.65
	$36,681.12	$30,310.80	$6,370.32*
BALANCE — Cash at end of year:			
In Bank	542.32	1,703.98	1,161.66
Petty Cash Fund, Secretary's Office	200.00	200.00	......
	$37,423.44	$32,214.78	$5,208.66*

The receipts for the entire period were found to have been promptly deposited. We examined vouchers, approved by the President and Secretary, for all disbursements and found the same to be in order. The petty cash fund was verified and the cash in bank as shown by the Cash Book was reconciled with the amount certified to by the bank at the close of business August 31, 1915.

FINANCIAL POSITION AUGUST 31, 1915

The financial position of the Association has been greatly improved during the past year as will be seen from the following summary:

Cash in Hand and in Banks at August 31, 1915	$1,903.98
Deduct — Accounts Payable	104.61
Balance excess of cash resources over liabilities of	$1,799.37

*Decrease.

A year ago the liabilities exceeded the cash resources by $7,803.33, therefore, the cash position has improved to the extent of $9,602.70 during the year.

FURNITURE AND FIXTURES — $1,318.32

The purchases of furniture during the year were small and the total charges aggregate only $24.50 which, together with the balance of $1,293.82 at the beginning of the year, makes up the amount of $1,318.32 above mentioned.

MEMBERSHIP

The following statement shows the membership at the beginning and end of the fiscal year with the changes during the year:

Particulars	*Main Offices*	*Branch Offices*	*Together*
Total Members at September 1, 1914	356	63	419
New Members obtained during the year	23	121	144
	379	184	563
Members resigned or otherwise dropped	39	8	47
Total Members at August 31, 1915	340	176	516

The amount due from members in respect of annual dues and initiation fees was reconciled with the Cash Receipts from these sources.

GENERAL

We are pleased to report that the books have been accurately kept and that the system of accounting installed at the beginning of the fiscal year has been found to be entirely adequate for the needs of the Association.

We desire to acknowledge, with thanks, the courtesies extended to our representative in the course of the audit.

Very truly yours,

ANDERSEN, DE LANY & CO.

Certified Public Accountants.

The President: This report will be received and published. We will now have the report from the chairman of the membership committee, Mr. W. M. L. Fiske, of Chicago.

REPORT OF THE COMMITTEE ON MEMBERSHIP

MR. PRESIDENT AND MEMBERS:

The Membership Committee begs to report that the total membership at the present date, including main and branch offices, amounts to 516. Membership last year at this time, including main and branch offices, amounted to 419. The substantial increase is explained partly by the decided increase in the number of branch office members, due to the new rules governing this class of members. Main office additions have numbered 23. The withdrawals during the current year have been mostly because of retirement from the bond business. The war period has resulted in a number of dissolutions. In addition to this, several houses handling for the most part a stock business with a bond department as a side issue, abandoned their bond departments and have therefore withdrawn from the Investment Bankers Association of America because they were no longer interested in our particular line of endeavor.

The additions to the list have consisted of carefully selected names from all over the country. Main office members have been admitted from New York, Kansas City; Madison, Wis.; Philadelphia; Newark; Boston; Portland, Main; Bangor; Columbus; Pittsburgh; St. Louis; Chicago; St. Paul; Denver and Indianapolis. Branch offices have been admitted from Pasadena; Great Falls, Montana; to New Orleans and Portland, Maine. The highest standard has been maintained throughout the year. We have had practically no applications for membership from concerns of doubtful desirability, as the high character of the Association is now well known and established.

The Membership Committee has recommended to the Board of Governors a course of action for the solicitation of new members, which has had some result. A beginning only has been made, but we believe that a persistent campaign of publicity, setting forth the desirability of membership in the Association will have the results desired. Through co-operation with the Membership Committee, the Secretary's Office has on hand a list of concerns which we believe are eligible for membership and which at the same time, should make desirable members. Co-operation by members of the Association in different sections of the country will, without doubt, result in an increased membership. The larger the membership, the more effective the Association can be.

A list of new members together with a list of the losses of membership is appended to this report.

1914		Main	Branch
Sept. 1	Total Membership, close of business Aug. 31, 1914........	356	63
	Gains in members, during fiscal year, Sept. 1, 1914, to Aug. 31, 1915........	23	121
	Gross total........	379	184
	Losses in members, during fiscal year, Sept. 1, 1914, to Aug. 31, 1915........	39	8
1915			
Sept. 1	Net total membership........	340	176

LOSSES

Date	*Names*	*City*
Sept. 1, 1914	Jno. D. Howard & Co.	Baltimore
" 1, 1914	C. Shillard Smith & Co.	Philadelphia
" 1, 1914	Colonial Trust & Savings Bank	Chicago
" 1, 1914	S. H. P. Pell & Co.	New York City
" 1, 1914	S. B. Wakefield & Co.	San Francisco
" 8, 1914	J. Harmanus Fisher & Sons	Baltimore
" 8, 1914	Geo. H. Stickney & Co.	Baltimore
" 10, 1914	Miller & George	Providence
" 14, 1914	Louis Sloss & Co.	San Francisco
" 22, 1914	Davis & Struve Bond Co.	Seattle
Oct. 20, 1914	Title Guaranty & Trust Co.	Baltimore
" 23, 1914	Taylor, Auchincloss & Joost	New York City
" 23, 1914	Hincks Bros. & Co.	Providence
" 23, 1914	Assets Realization Co.	Chicago
" 26, 1914	Cramp, Mitchell & Co.	Philadelphia
Nov. 27, 1914	Davies, Thompson & Co.	New York City
Dec. 31, 1914	Stein Bros	Baltimore
" 31, 1914	German National Bank	Cincinnati
" 31, 1914	Hollister, Fish & Co.	New York City
" 31, 1914	John W. Dickey	Augusta
" 31, 1914	Spitzer, Rorick & Co.	Toledo
" 31, 1914	Meikleham & Dinsmore	New York City
" 31, 1914	Schanke & Co.	Davenport
" 31, 1914	Post & Flagg	New York City
" 31, 1914	Lewis Bros. & Co.	Boston
" 31, 1914	F. B. McCurdy & Co.	Halifax
" 31, 1914	Lundborg, Morgan & Co.	San Francisco
" 31, 1914	Dick Bros. & Co.	New York City
" 31, 1914	Heidelback Ickelheimer & Co.	New York City
" 31, 1914	Wesling, Jenkins, Blish & Co.	Philadelphia
" 31, 1914	American Trust Company	St. Louis
" 31, 1914	Tevis-Hanford Co.	New York City
" 31, 1914	(Br) Spitzer Rorick & Co.	Chicago
" 31, 1914	(Br) Harvey Fisk & Sons	Chicago
" 31, 1914	(Br) Breitung & Co. Ltd.	Chicago
" 31, 1914	(Br) Morris Bros. (Changed from Br. to Main)	Portland, Ore.
Feb. 23, 1915	Goodwin, Garby & Holton, Inc.	San Francisco
" 23, 1915	F. R. McMullin & Co.	Chicago
" 23, 1915	Canada Industrial Bond Corp.	Montreal
" 23, 1915	Lawrence Barnum & Company	New York City
" 23, 1915	(Br) Canada Industrial Bond Corp.	Toronto
" 23, 1915	(Br) Lawrence Barnum & Company	Philadelphia
Mar. 1, 1915	(Br) F. J. Lisman & Company	Chicago
Aug. 10, 1915	(Br) Bertron, Griscom & Co.	Harrisburgh

Date	Names	City
Aug. 31, 1915	S. L. & W. R. Wright	Philadelphia
" 31, 1915	Atlanta Trust Co	Atlanta
" 31, 1915	C. Clothier Jones & Co	Philadelphia

GAINS

Date	Names	City
Oct. 8, 1914	Theo. Gary Investment Co	Kansas City
" 28, 1914	Madison Bond Company	Madison
Nov. 4, 1914	Edward B. Smith & Co	Philadelphia
" 11, 1914	Fidelity Trust Company	Newark
Dec. 7, 1914	Glendinning & Co	Philadelphia
" 30, 1914	Marshall & Company	Boston
" 30, 1914	Morris Brothers (From Br. to Main)	Portland, Ore.
Jan. 1, 1915	(Br) H. F. Bachman & Co	New York City
" 1, 1915	(Br) Burgess, Lang & Co	New York City
" 1, 1915	(Br) H. M. Byllesby & Co	New York City
" 1, 1915	(Br) Kennett Cowan & Co	New York City
" 1, 1915	(Br) Estabrook & Co	New York City
" 1, 1915	(Br) A. G. Edwards & Sons	New York City
" 1, 1915	(Br) Hambleton & Co	New York City
" 1, 1915	(Br) W. E. Hutton & Co	New York City
" 1, 1915	(Br) Jackon & Curtis	New York City
" 1, 1915	(Br) Montgomery, Clothier, & Tyler	New York City
" 1, 1915	(Br) Newburger, Henderson & Loeb	New York City
" 1, 1915	(Br) John Nickerson, Jr	New York City
" 1, 1915	(Br) Russell, Brewster & Co	New York City
" 1, 1915	(Br) H. P. Taylor & Co	New York City
" 1, 1915	(Br) Tillotson & Wolcott Co	New York City
" 1, 1915	(Br) Tucker, Anthony & Co	New York City
" 1, 1915	(Br) Ussing, Scoville & Co	New York City
" 1, 1915	(Br) Weil, Roth & Co	New York City
" 1, 1915	(Br) Bond, & Goodwin	Chicago
" 1, 1915	(Br) George H. Burr & Co	Chicago
" 1, 1915	(Br) Campbell, Heath & Co	Chicago
" 1, 1915	(Br) Miller & Co	Baltimore
" 1, 1915	(Br) E. W. Clark & Co	Pittsburgh
" 1, 1915	(Br) Harvey Fisk & Sons	Pittsburgh
" 1, 1915	(Br) Graham & Co	Pittsburgh
" 1, 1915	(Br) Harris, Forbes & Co	Pittsburgh
" 1, 1915	(Br) Allerton, Greene & King	Detroit
" 1, 1915	(Br) Bolger, Mosser & Williman	Detroit
" 1, 1915	(Br) Kennett Cowan & Co	Detroit
" 1, 1915	(Br) Devitt, Tremble & Co	Detroit
" 1, 1915	(Br) N. W. Halsey & Co	Detroit

Date	Names	City
Jan. 1, 1915	(Br) Hornblower & Weeks	Detroit
" 1, 1915	(Br) W. G. Souders & Co	Detroit
" 1, 1915	(Br) Geiger-Jones Co	Buffalo
" 1, 1915	(Br) Harris, Forbes & Co	Buffalo
" 1, 1915	(Br) W. C. Langley & Co	Buffalo
" 1, 1915	(Br) A. B. Leach & Co	Buffalo
" 1, 1915	(Br) H. P. Taylor & Co	Buffalo
" 1, 1915	(Br) White, Weld & Co	Buffalo
" 1, 1915	(Br) George H. Burr & Co	San Francisco
" 1, 1915	(Br) Campbell, Heath & Co	San Francisco
" 1, 1915	(Br) J. G. White & Co., Inc	San Francisco
" 1, 1915	(Br) E. W. Clark & Co	Cincinnati
" 1, 1915	(Br) Stacy & Braun	Cincinnati
" 1, 1915	(Br) Tillotson & Wolcott Co	Cincinnati
" 1, 1915	(Br) Bertron, Griscom & Co	New Orleans
" 1, 1915	(Br) Bertron, Griscom & Co	Washington
" 1, 1915	(Br) N. W. Halsey & Co	Los Angeles
" 1, 1915	(Br) E. H. Rollins & Sons	Los Angeles
" 1, 1915	(Br) Bond & Goodwin	Minneapolis
" 1, 1915	(Br) Wm. R. Staats Company	Chicago
" 1, 1915	(Br) Weil, Roth & Co	Chicago
" 1, 1915	(Br) J. G. White & Co., Inc	Chicago
" 1, 1915	(Br) Lawrence Barnum & Co	Philadelphia
" 1, 1915	(Br) George H. Burr & Co.	Philadelphia
" 1, 1915	(Br) Campbell, Heath & Co	Philadelphia
" 1, 1915	(Br) Harris, Forbes & Co	Philadelphia
" 1, 1915	(Br) A. B. Leach & Co	Philadelphia
" 1, 1915	(Br) F. J. Lisman & Co	Philadelphia
" 1, 1915	(Br) E. H. Rollins & Sons	Philadelphia
" 1, 1915	(Br) George H. Burr & Co	St. Louis
" 1, 1915	(Br) N. W. Halsey & Co	St. Louis
" 1, 1915	(Br) Bertron, Griscom & Co	Boston
" 1, 1915	(Br) Bond & Goodwin	Boston
" 1, 1915	(Br) Brown Bros. & Co	Boston
" 1, 1915	(Br) George H. Burr & Co	Boston
" 1, 1915	(Br) Campbell, Heath & Co	Boston
" 1, 1915	(Br) E. W. Clark & Co	Boston
" 1, 1915	(Br) Harvey Fisk & Sons	Boston
" 1, 1915	(Br) Goldman, Sachs & Co	Boston
" 1, 1915	(Br) Millett, Roe & Hagen	Boston
" 1, 1915	(Br) Spencer Trask & Co	Boston
" 1, 1915	(Br) Field, Richards & Co	Cleveland
" 1, 1915	(Br) Geiger-Jones Co	Cleveland
" 1, 1915	(Br) Harris, Forbes & Co	Cleveland
" 1, 1915	(Br) White, Weld & Co	Cleveland
" 1, 1915	(Br) Estabrook & Co	Baltimore

Date		Names	City
Jan.	1, 1915	(Br) N. W. Halsey & Co.	Baltimore
"	1, 1915	(Br) A. B. Leach & Co.	Baltimore
"	1, 1915	(Br) George H. Burr & Co.	Seattle
"	1, 1915	(Br) Hornblower & Weeks	Providence
"	1, 1915	(Br) Lee, Higginson & Co.	Providence
"	1, 1915	(Br) Wells, & Dickey Co.	St. Paul
"	1, 1915	(Br) Otis & Company	Denver
"	1, 1915	(Br) Otis & Company	Columbus
"	1, 1915	(Br) Lee, Higginson & Co.	Worcester
"	1, 1915	(Br) Graham & Company	Scranton
"	1, 1915	(Br) Miller & Company	Richmond
"	1, 1915	(Br) Geiger-Jones Co.	Dayton
"	1, 1915	(Br) Harris, Forbes & Co.	Albany
"	1, 1915	(Br) Spencer Trask & Co.	Albany
"	1, 1915	(Br) Estabrook & Co.	Hartford
"	1, 1915	(Br) Lee, Higginson & Co.	Hartford
"	1, 1915	(Br) F. J. Lisman & Co.	Hartford
"	1, 1915	(Br) Parkinson & Burr	Hartford
"	1, 1915	(Br) Rhoades & Company	Hartford
"	1, 1915	(Br) Bertron, Griscom & Co	Hartford
"	1, 1915	(Br) Graham & Company	Trenton
"	1, 1915	(Br) Tucker, Anthony & Co.	New Bedford
"	1, 1915	(Br) E. W. Clark & Co.	Reading
"	1, 1915	(Br) Graham & Company	Reading
"	1, 1915	(Br) Estabrook & Co.	Springfield
"	1, 1915	(Br) Harris, Forbes & Co.	Troy
"	1, 1915	(Br) E. W. Clark & Co.	Utica
"	1, 1915	(Br) Bertron, Griscom & Co.	Wilkes Barre
"	1, 1915	(Br) Callaway, Fish & Co.	Wilkes Barre
"	1, 1915	(Br) E. W. Clark & Co.	Wilkes Barre
"	1, 1915	(Br) Harvey, Fisk & Sons	Wilkes Barre
"	1, 1915	(Br) Graham & Co.	Erie
"	1, 1915	(Br) Lee, Higginson & Co.	Portland, Me.
"	1, 1915	(Br) Bertron, Griscom & Co.	Scranton
"	1, 1915	(Br) Miller & Company	Atlantic City
"	1, 1915	(Br) Swartwout & Appenzellar	Pittsfield
"	1, 1915	(Br) William R. Staats Company	Pasadena
"	1, 1915	(Br) Otis & Company	Colorado Springs
"	1, 1915	(Br) Wells, & Dickey Company	Great Falls
"	1, 1915	(Br) Bertron, Griscom & Company	New Haven
"	1, 1915	(Br) Bertron, Griscom & Company	Harrisburg
"	1, 1915	(Br) Kidder, Peabody & Company	New York City
Feb.	4, 1915	Merrill Trust Company	Portland, Me.
"	4, 1915	Maynard S. Bird & Co.	Portland, Me.
"	4, 1915	Fidelity Trust Company	Bangor, Me.
Mar.	23, 1915	Ohio National Bank	Columbus

Date		*Names*	*City*
Apr. 2, 1915		Union Trust Company	Pittsburgh
" 3, 1915		Frasier & Company	Philadelphia
" 3, 1915		W. H. Newbold's Son & Co.	Philadelphia
" 3, 1915		Kauffman, Smith, Emert & Co.	St. Louis
May 12, 1915		Powell, Garard & Company	Chicago
" 27, 1915	(Br)	W. N. Coler & Company	Chicago
" 17, 1915		H. M. Payson & Company	Portland, Me.
June 4, 1915		Capital Trust & Savings Bank	St. Paul
" 17, 1915		Edwin M. Bosworth & Company	Denver
Aug. 10, 1915		Mercantile Trust Company	St. Louis
" 23, 1915		Wilson, Cranmer & Company	Denver
" 10, 1915	(Br)	R. M. Grant & Company	Boston
" 30, 1915		Fletcher Savings & Trust Company	Indianapolis
" 30, 1915		J. R. Sutherlin & Co.	Kansas City

Respectfully submitted,

W. M. L. Fiske, *Chairman Membership Committee.*

The President: If there is no objection, this report will be received and printed.

Our next committee report will be Railroad Bonds and Equipment Trusts, Mr. Lewis B. Franklin, of New York, chairman. [Applause.]

RAILROAD BONDS AND EQUIPMENT TRUSTS REPORT

The Report of the Committee on Railroad Bonds and Equipment Trusts made to the Third Annual Convention of this Association in Philadelphia dealt exclusively with the subject of Equipment Trusts. It has seemed advisable for your Committee this year to devote their attention to a study of Railroad Mortgages.

The problem is of such magnitude and involves such intricate questions of railroad accounting and management, that it has not been possible for your Committee, in one year, to accomplish more than to map out a program and undertake some initial work.

During the period of the great prosperity of our railroad systems, their securities commanded a ready market both in this country and abroad, and throughout this time the competition on the part of investment bankers for new issues of railroad bonds was keen. This condition offered an opportunity to the issuing companies to decide upon the terms of their mortgages without much regard for the wishes of the banker and the protection of the investor, and this opportunity was in too many cases availed of. The investment banker, in order to participate in the business, was forced to accept the mortgages as drawn by the counsel for the

railroad company, and in every way the advantage was with the seller and against the buyer. In justice to the banker, it must be conceded that since that period conditions unfavorable to the railroad companies have arisen which could not have been reasonably foreseen.

Under these circumstances, bonds were issued and sold which at the time were generally considered as high grade investments but which have been unable to withstand the adverse conditions now existing. A recently issued plan of readjustment of a prominent railway company brings to light the inherent weakness of a number of mortgage bonds at one time considered as high grade investments and now offered in the readjustment only income bonds or preferred stock. Losses of this nature impress upon us the necessity of careful analysis *in* the beginning and constant scrutiny *from* the beginning.

Conditions are now reversed. The advantage is with the buyer and a wonderful opportunity is offered for constructive banking. The buyer now can demand and obtain carefully drawn trust indentures protecting the investor at every point and avoiding those dangers which have in the past few years been pointed out in the most emphatic way.

Your Committee has consulted with railroad officials and trustees as to practical methods whereby greater safeguards may be provided and now presents a preliminary report recommending a few of the most important provisions.

Sinking Funds

Railroad property is no more immune from depreciation and obsolescence than is other property. Considerable mileage of road is dependent upon special sources of traffic which are not in their nature permanent and bonds secured on railroad property of this kind most certainly need and should have the benefit of a sinking fund. But this is not all. Trackage, which today is of the utmost importance and worth more than the bonds upon it, may in the near future, by reason of a change in conditions, become almost worthless, Replacement value or cost is not an infallible measure of real value. Property, to have value, must have earning capacity and earning capacity is subject to change. A sinking fund is the strongest protection which can be provided against a change in value due to a change in earning capacity. It is amazing what a small amount appropriated annually will provide in fifty years—an ample fund. For example, a cumulative sinking fund of ¼ of 1% upon a 5% Fifty Year Bond, callable at par, will retire more than 52% of the issue by maturity, while a cumulative sinking fund of ½ of 1% on a similar bond will retire the entire issue prior to maturity.

The objection of the railroads to sinking funds is that their revenues are already restricted while the Interstate Commerce Commission which controls railroad rates does not appreciate the need for any repayment of debt out of earnings. Here is a fertile field for work.

Your Committee recommends that this Association place itself on record as being in favor of the repayment of railroad debt in full or in part out of earnings and make an urgent plea before the Interstate Commerce Commission for the recognition of the principle.

Maintenance Charges

Your Committee has discussed with railroad operators the question of providing in indentures for a specified sum to be spent on the maintenance of property covered by the mortgage and is of the opinion that such a provision is not practical.

Issue and Sale of Stock Without Par Value

Most of the States prohibit the sale of stock by a corporation at less than its par value and therefore comparatively few of our railroad corporations are today in a position to finance any part of their requirements for betterments, improvements, or extensions other than by increase of their debt. This means a continual weakening of the margin of safety over the junior securities and unless offset in some way is sure to lead to trouble in the future as it has in the past.

What is a share of stock but an evidence of part ownership in the enterprise and why should it have a nominal value which may in no way be related to its real or even its market value?

The Railroad Commission of the State of California has recognized the necessity on the part of public service corporations of maintaining the equity in their property over and above their bonded debt by allowing the sale of stock, both common and preferred at prices below par, but approved by the Commission. Such practice works no hardship on the buyer of the stock or the old stockholder, but maintains for the bondholder his *pro rata lien* on the property. It is admitted that such sale of stock without par value must not be permitted except under proper supervision, either state or national.

Contrast the credit position today of those roads which have been able to finance to a large extent by sale of stock with those which have had to sell bonds to meet all expenditures and then consider how much better would be the position of those weaker roads, had they been allowed to sell their stock at fair prices. This is a subject where more education is needed.

Long Term Bonds

Long term bonds should not be issued to cover the purchase of equipment or to retire maturing equipment trust instalments unless such bonds are protected by a strong sinking fund or strict provisions requiring the maintenance of the equipment pledged at a value equal to the bonds issued therefor. Provisions should be made for annual examination of the equipment records by the Trustee at the expense of the railroad and adequate methods provided for enforcement by the Trustee of the terms of the indenture.

General Mortgage or Refunding Issues

It is recommended that general mortgage or refunding issues be drawn without fixed limits as to maturity, amount, or rate of interest, thereby providing a flexible security which can be issued from time to time under provisions in accord with conditions then existing.

Advance Offerings

The investment banker is cautioned against offering bonds to his clients before the mortgage securing the issue is executed. When the horse has been

STEDMAN BUTTRICK, *Vice-President*
Estabrook & Company, Boston

stolen it is too late to lock the stable door, and the time to insist upon proper mortgages is prior to the purchase and not subsequent thereto.

Respectfully submitted,

LEWIS B. FRANKLIN, *Chairman*.

The President: In undertaking a discussion of this report, the committee would recommend that the discussion be limited primarily to the two subjects of railroad sinking funds and the issuance of stock without par value, feeling that in these two subjects we have sufficient material to exhaust the time limited to the discussion under the supervision of this committee. The committee has been very fortunate in obtaining for the opening of the discussion one of our legal lights from New York who has made a life-long study of the railroad situation; and the committee will ask Mr. Roberts Walker, of the firm of White and Case, to open the discussion on these subjects.

RAILROAD SINKING FUNDS

ROBERTS WALKER
White & Case, New York

Mr. Chairman and Gentlemen: I do not know by whom I was regarded, in the words of one of Shakespeare's clowns, as "the most senseless and fit man" to start this discussion. I do not regard myself as an authority on railroads, but with such experience as I have, I am glad to take part. I have heard what Mr. Franklin says. It is exceedingly difficult to quarrel with his recommendations at all, they are so fundamentally sound, and so inherently desirable. But in the application of them, the difficulties are very great indeed. In the first place there is the difficulty that you cannot generalize as to the railroads in this country, scarcely any two of them being comparable as to earnings, as to capitalization, as to management, as to all the factors that go to make a success or a failure of the enterprise. In the second place, we have in the United States a rather fixed condition. Investments have been made in past years now representing literally billions of obligations, some to mature in years that are close at hand, many of them to mature in years a great many decades hence. The last available figures were for June 30, 1914,

and at that date, the promissory obligations of the railroads, in which I have included equipment notes and short term borrowings and also the working liability figures on the balance sheets, $13,300,000,000 in round figures. At that time, the outstanding capital stock in the hands of the public, not including stock in the treasury or impounded under collateral bonds, was $6,011,000,000. Thus, the stock is about forty-five per cent of the outstanding promissory obligation, or the stock is some thirty-six per cent of the grand total, making the promissory obligations about sixty-four per cent of the grand total. This illustrates a very familiar tendency in American railroads; namely, for the bonds to displace the stock. I think that in the interest of sound investments, you will all agree that the exact contrary should be the tendency; that your bonds should be so good that stock ought to sell readily, and stock ought to tend in the long run to displace the bonds. The necessity for making stock better is not so much to sell it to investors, as to make better the bonds which you sell to investors. Mr. Franklin has spoken of the sale of bonds in the past, and has very correctly stated that the bonds were sold in the utmost of good faith, and in the belief that conditions would approximately continue. The difficulty in selling long-term bonds, without restrictions as to sinking fund or other anticipated payments, reposes mainly in the fact that a long-term bond is a property proposition; it is based on intrinsic value of the property. A sinking fund brings you to the other consideration; namely, earning power; and earning power is the vital trouble with the American railroads today, or with many of them. I think an added difficulty that has brought about the sale of bonds and has tended to prevent recourse to sinking funds more generally, has been that commissions, state and federal commissions, seem to have the idea that railroad bonds are "impressed with public use," and should be bought, just as government bonds are bought, without regard to earning power, and with the expectation that here are corporations of a public character, and therefore their securities will always be met somehow, some way. That attitude has made the sale of bonds more favored by commissions and public authorities, and has provoked the very lamentable condition that now confronts us; namely, that we hate to pay debts in this country, as far as railroads are concerned. We

will *renew* indefinitely, but *payment* is the last thing we like to think about; we like to keep the obligation alive, and to add to the obligation for new work, but not to terminate the obligation and extinguish it for good and for all. A sinking fund would make us think more about extinguishment of debts, and the general public demand for sinking funds would lead to a demand for better earning with which to meet those sinking funds. Mr. Franklin's quarter of one per cent sounds like a little burden. As a matter of fact, that would be a burden that would wreck a number of carriers not yet in the hands of receivers, and would have accelerated the receivership of some carriers that are now in the hands of a receiver. Just applying the one-quarter of one per cent to the outstanding promissory obligation or rather to funded debt; the funded debt alone as of June 30, 1914, amounted to a little over $8,000,000,000. A quarter of one per cent, if my arithmetic is correct—I am a lawyer, not a banker—a quarter of one per cent, would be, I think, $20,000,000, which is in addition to the interest charges paid on funded debt of a little under five per cent. The annual fixed charges paid by carriers aggregate $439,000,000. The net result of the recommendation for sinking funds is that it is ideally desirable, but as a practical matter, as applied to the majority of railroads, it would necessitate higher gross and net earnings before it could be generally applied.

On the subject of stock without par value: there again, as previously, the reasons for it are so just and sound that they need no demonstration. A share of stock is nothing more or less than a fraction. But on the practical side we have two main difficulties. First, the statutory situation of the railroads, nearly all railroads being state corporations; but very few states permit the issuance of stock without par value, and such of these as I have in mind, notably New York and Virginia, do not permit railroads to issue stock without par value, or at any rate, do not allow the existing railroads to change their situation in that respect; the other difficulty is that, unless net earnings improve, stock without par value would not sell any better than stock with par value would today; hence, we come back again to the question of earnings; with better earnings for the carriers, the carriers could sell stock without par value, and that would tend to better those stocks and bonds that you gentlemen sell and they would become steadily

better. With the earnings in their present condition, with the exception of a very few carriers, the sale of stock without par value, even if authorized by unanimous action among the states would not solve the problem. Better earnings will make better bond conditions.

I thank you. [Applause.]

The President: I am sure there are a large number of our members here who have definite and well defined ideas on this question, well defined ideas on a subject which is vital to everybody working at our business these days and who do not give the others the benefit of a bit of thought. Because we have limited this discussion for a short time, it is only right that everyone should have an opportunity to get into the matter. It seems to me the committees have made a very fair and able presentation of these problems. We should like very much to hear from every member in this convention as to how this question seems to them from the hilltop. Mr. Gifford, haven't you something to say on this question?

Mr. Gifford (William Salomon & Company, Chicago): There is just one suggestion that I thought of making, and that was: as the funds devoted to retiring bonds through a sinking fund are really taken from the stockholders, it seems but fair and proper that as bonds are retired stock dividends of an equal amount may be declared. It is obvious that such a course makes no difficulty in the total capitalization. I think this general practice has been recognized in California in the case of the Pacific Gas & Electric Company.

Mr. Prescott (Prescott & Snyder, Kansas City): I have just this suggestion to offer in reply to Mr. Gifford's comment: That would tend, perhaps, to increase the face value of the investment of the stockholders; but would it not also tend to reduce the opportunity to persuade the commissions that the railroads should have better rates? It would be sort of an artificial swelling of the capitalization without a compensating benefit, it would seem to me.

Mr. Baker (Baker, Watts & Co., Baltimore): I do not know when I have heard a report, Mr. President, that has impressed me more favorably than the railroad report. I appreciate, of

course, the practical working out, as was suggested by Mr. Walker, but it does seem to me that if the report is fundamentally sound that the safeguards of the bonds which we demand that these principles be enacted; some way ought to be found by the railroads to work them out. In other words, if we do not do that—and I believe there is nothing more important in a railroad bond than a sinking fund—if we do not demand that, we are sacrificing the investment of the money to whom we sell the bonds. In other words, it seems to me that that principle ought to be worked out some way, and I realize the difficulties just as much as any one.

There is just one other point that occurs to me, and that is the importance to the bond dealers of the sinking fund from their own individual standpoint. How much easier it is to take care of a market in the bonds if every year or six months a beautiful sinking fund comes along to take up the straight loan? [Laughter.] The other is from the standpoint of the investor; but that is a very beautiful idea from the standpoint of the investment banker. [Applause.]

Mr. Lindsay (Wm. Salomon & Co., New York): Mr. Chairman, we were talking about that coming out on the train, and one point that came up was that we might possibly take a leaf out of some industrial sinking fund. Railroad earnings fluctuate, of course—a great many of them—just as much as industrials, and we thought possibly you might take a sinking fund and not make it a fixed charge. In other words, either extend a default provision, so that you could not put a railroad immediately into default on account of failure to pay the sinking fund, or else make it a preferred charge, like preferred stock; in other words, if a railroad's earnings reach a certain total, a certain percentage of these earnings would have to be applied to redemption of bonds. [Applause].

Mr. Block (Nelson, Cook & Company, Baltimore): Mr. Baker has given a very good idea of selling bonds to a sinking fund, but I have lately tried to sell some bonds of an issue of a railroad to the president of the road for the sinking fund, and he did not think they were a good investment for his sinking fund. [Laughter.] Now you gentlemen all agree with me that that is quite a good joke, but nevertheless, that is absolutely true, and the circum-

stances arose in this way—if you will pardon me for a moment: Some time ago I took a trip down to North Carolina and while there I met a very remarkable individual who owns a little road down there, and we bought an issue of a hundred and fifty thousand bonds, with a sinking fund sufficient to retire all of these bonds at maturity. Do you see? The principle of a road being that they had certain moneys in that sinking fund in lands and mortgages in Georgia and North Carolina; that his road's bonds were good at the present time, but he didn't know what might be done in the future. It is largely a question of investing the sinking fund and becomes a very important factor.

Mr. Moore (Barclay, Moore & Co., Philadelphia): It occurred to me in listening to this discussion, that the questions of appropriations for maintenance and for depreciation bear more or less of a relationship to this subject; in other words, all those appropriations are sufficient to increase the value of the mortgaged property up to what it was when the issue of bonds was originally made. Isn't the necessity for a sinking fund, to some extent, obvious? See my point there? If the property at the maturing of the mortgage has been kept and is worth as much as when the mortgage was created, isn't it worth as much as a renewal of that mortgage for the same amount? [Applause.]

Mr. L. B. Franklin (Guaranty Trust Co., New York): In answer to Mr. Moore, the Committee took up with a number of railroad presidents this question of maintenance. The Interstate Commerce Commission provided very definitely as to a division of expenditures for maintenance and for new construction, capital, and betterments, and their provisions are very carefully laid down and it is quite definite there as to what is maintenance and what is not maintenance, but there is nobody who can make a railroad management spend a definite amount on maintenance in the right way. You can make them spend a definite percentage of their gross earnings on maintenance, and you can set forth what maintenance is, but if they waste that money, you do not get the increase in the value of that property or the maintenance of that property. It is a question that is so represented by good management that I do not believe that there is any possible way of laying down a law in black and white which is going to do you any good; at least that is the conclusion

of the committee to date. Our successors may look at it in a different light, but it is a question of good management, a rule which you cannot set down in black and white in a mortgage.

Mr. Chamberlain (Kountze Brothers, New York): I wish to support ~~Mr. Moore in what he has said.~~ Logically, if you retire all the funded debt of any corporation, it is an unsound business practice, because you can borrow investment money at a lower rate than you can solicit speculative proprietorship money. I approve in practice of what Mr. Franklin has recommended in that respect, but I just wish to call attention to the principle—the fundamental, economic principle—back of that recommendation; so that we should study a little bit carefully that question, to avail ourselves of any recommending legislation along these lines. For illustration: if the proprietors of a public service corporation are entitled to eight per cent for the use of their money and the services they render the public, those who lend that corporation money are entitled to a less return, because the money that they risk in their investment—the amount of risk in the investment is so much less it would be unfair to the taxpayer—I mean by that, the person who pays for the use of the water or the transportation or the light—to have him pay eight per cent on the entire capitalization, rather than the five per cent or the six per cent in the invested capital, and the right per cent on the risked capital and the proprietorship capital. [Applause.]

Mr. Bullard (E. H. Rollins & Sons, Chicago): I take it a good deal of this discussion hinges upon the necessity for making bonds more secure and more desirable, for the reason that bonds are generally used as securities. There is no substitute. I was impressed in looking over a statement of the English railways the other day by the fact that about one-third of the capital is raised by preferred stock, which seems to me is not adequately used by the railroads in this country, for the purpose of raising the capital. If preferred stock were more generally used, bonds would not be so needed. That would be one solution of the difficulty. [Applause.]

Mr. Robinson (Robinson & Company, New York): Mr. President: Mr. Franklin has well said in his report that conditions now exist which place the advantage of the issuance of bonds with the filing of bonds, and Mr. Walker has pointed out

in an impressive manner the fact that a small tax would be a very serious matter when placed upon the earning power of the properties, as it is today. The discussion that we have had thus far would indicate that there is no division of opinion as to the desirability of throwing about the issuance of bonds additional safeguards, by sinking funds, prescribed maintenance charges, or whatever the form may be. I think we are all tending in the right direction, but the difficulty is we haven't the means, apparently, to throw these safeguards about the future interest on bonds, and I therefore venture to suggest that as a result of this discussion, the Association take some definite step to impress upon the Interstate Commerce Commission the necessity for a larger income to the railroads, in order that these very proper safeguards may be thrown about it. I know that the Association's committee has appeared before the Interstate Commerce Commission and has done splendid work. I want to give you this thought: Is it not possible for us to appear before the Commission more frequently or use some means whereby the justice of the claim for increased earning power may be brought home to them even more forcibly than it has been thus far? We need a greater income today on these things. That is the weak point in the problem that we are discussing this morning. [Applause.]

Mr. Walker: In accordance with what this last gentleman said, I would venture to suggest that any action that might be taken by this Association be not limited to the Interstate Commerce Commission, because it alone is not responsible for the general rate. The actions of the state commissions as to said legislation causes the railroads to lower rates in a great many instances, voluntarily, and they have lowered some rates as a matter of policy. It would seem wiser not to single the Interstate Commerce Commission out, but to include the state commission for their due share of the matter.

Mr. Fuller (Kissel, Kinnicutt & Co., New York): The matter of a sinking fund, as mentioned by Mr. Franklin, a fourth of one per cent seems to me to be very vital, not only to we houses that sell railroad bonds and other securities, but much more to the investor. Some gentleman has previously spoken and said that a great many of the larger corporations, especially applicable to the main line railroads with their funded debt need no sink-

ing funds. That is quite true in some of the larger municipalities, but with the smaller railroads, like the smaller municipalities, they should have sinking funds. Take in the smaller ones, we make them pay their debts because if they do not, they will not have any money to make any new improvements. You take a railroad which does not go through the most populated territory which has a limited earning power and possibly a limited mortgage on a certain amount and where the company would not have either the earning power large enough to issue bonds for new improvements, I think the sinking fund should be established as a matter of common sense. The railroad commission would then be led to allow reasonable sinking funds for the payment of their obligations. Public service companies have sinking funds, and it has been well said a while ago that it is time that the people should furnish money to these corporations in any measure and tell the borrower to name some of the terms.

The President: If I may suggest a word, there is one portion of this report which seems to be exceedingly interesting and one upon which I should very much like to have an expression from the different sections of the country. If there be one crime, and we are all criminals, you know—if there be one crime that the railroad world and the banking world has committed against this dear common people, it is the issue of stock in large amounts. Now, then, that trouble would be changed. It seems to me, if in every large enterprise, for every corporation, stock were issued without par value simply as representative of a certain proportion of whatever the principal may be.

It seems to me a little bit as though it may be something of a solution of this vexed problem which really the people have got into their minds wrong; they have hold of the wrong end. I would like very much to have discussion and expression on that question. How does it affect the people in your particular locality? How would your investors feel about it? It is coming up for discussion. I think it worth our while to see what each other thinks about it here. Mr. Fiske, what do you think about that?

Mr. Fiske (Wm. A. Read & Co., Chicago): I haven't given it any consideration, Mr. Chairman, I am sorry to say.

Mr. Compton (Wm. R. Compton Co., St. Louis): Mr. Chair-

man, I move the adoption of the report, and that a copy be sent to the Interstate Commerce Commission, and various other public service commissions.

The President: All in favor of that, please say "Aye." Contrary minded, "No." It is so ordered. Mr. Blunt, I think you are the next on the program. [Applause.]

Mr. Blunt: I would like to offer a word of explanation. I see I am down on the program. My subject is "A Few Words on Reorganizations and Railroad Bonds." What I was asked to speak on was "Reorganization." The two terms are so closely associated in these days [laughter]—I am covering both subjects. I hope you will bear with me a little bit. It is very hard for me to speak this morning, and I did not know just what this discussion was going to be. I may cover some subjects that have already been taken up by Mr. Franklin and Mr. Walker and others. But the subject that I had originally was "Reorganization."

A FEW WORDS ON REORGANIZATIONS AND RAILROAD BONDS

John E. Blunt, Jr.
Vice-President, Merchants Loan & Trust Co.,
Chicago

The subject on which I have been asked to speak is one that at the present time is of vital interest to every investment banker and almost every investor, for few there are who are fortunate enough to possess securities not in default. The entire session of this convention could probably be devoted to its discussion and still leave much unsaid.

In the short interval I have had for preparation and the limited time at my disposal today, it is impossible for me to do more than mention a few points which occur to me, and perhaps emphasize some ideas that are doubtless already in your minds.

The weakness of a bond, as compared with a mortgage, lies in the inability of the individual holder to act for himself in realizing on his security, and in these days, when corporate mortgages overlap to such an extent that it is seldom a single issue can act independently of others, the complications arising are extremely difficult of solution.

A reorganization is usually the outcome of a situation of which the first step is a receivership. Close upon the heels of the latter follow the "Protective Committees" with their bondholders' agreements. You read in the evening paper that a certain property has gone into the receiver's hands; in the morning paper you find certain parties, at the request of a large number of bondholders, have consented to act as a committee. What is a bondholders' agreement? Briefly, it is a more or less elaborate power of attorney giving to the committee authority to do what in its judgment may seem best for the bondholders' interests. There are limitations, restrictions and privileges of withdrawal, but in actual practice it amounts to a complete delegation of power.

If you desired, in the ordinary course of business, to give a power of attorney to an individual you would naturally want a man in whom you had complete confidence as to his integrity, his judgment and his ability. There is no reason why the same standard should not apply to a member of a bondholders' committee. He should really represent the bondholders and should be selected for his qualifications for the position. He should realize its responsibility and trusteeship nature and be able to give sufficient time to make his services of some value.

The practice of officers of the trustee acting on a committee is subject to criticism. There should be co-operation between the committee and the trustee, and the advice of the latter is frequently of great value, but they should not attempt to serve in what might prove a dual capacity, but rather hold themselves in readiness to act as a check on the committee when necessary. In other words, they should act with, but not on the committee. I do not know why this Association should not at a future meeting outline some plans for the selection or election of bondholders' committees.

A word may be said here on the question of expenses. They often seem out of all proportion to the results accomplished. Men who devote their time to constructive work should be well paid for their services, but a corporation that is unfortunate enough to get into the hands of a receiver should not be considered legitimate prey for the avaricious.

The amount of railroad mileage in receivers' hands today is greater even than in the years following the panic of 1893, and

there has been no time in recent history when reorganizations were as numerous as at present. A study and comparison of some of the plans that are now being put forth would prove interesting and profitable, but this is not possible in a paper of this length.

I will say, however, that most of those I have had occasion to examine, seem to offer temporary, rather than permanent relief. Fixed charges are reduced, assessments are levied, and various kinds of pressing obligations are paid off, but the new securities are issued in the same manner as the old, and there is nothing to prevent a repetition of the trouble in the more or less distant future.

My own opinion is that before the majority of our railroads can hope to take care of what we may call their permanent future needs, they will have to undergo reorganizations more drastic than most of those now proposed. They must issue their securities along new lines that will afford every possible protection to the legitimate investor, particularly the bondholder. What is there in the average railroad bond offered today that should attract anyone who gives it careful consideration? It usually runs fifty or more years without any provision for payment of the principal. And who is there during that fifty years who is looking after the bondholders interests? Does the management? Not always, for it represents the stockholders. Does the trustee? Not to any greater extent than provided in the trust deed. Does the bondhouse? Sometimes, but there is hardly profit enough to warrant any great expenditure on its part. As a rule, the bondholder is helpless until the bonds are in default, and when trouble comes, receivers' certificates, equipment trusts, and even notes are taken care of first, and here let me say that I think equipment trusts, as issued at present, are the greatest possible menace to railroad mortgage bonds. A New York house making a specialty of equipments is authority for the statement that while in 1900 there were only $60,000,000 equipment bonds outstanding, the amount at the present time approaches $600,000,000, and all of them coming due at the rate of one-tenth each year for no better reason than that this kind has been found easiest to sell. Our railroad committee is doing some excellent work in outlining improvements in railroad trust deeds, and I trust will permit me to say here that I believe that any general mortgage drawn here-

after should provide for the issue of equipment bonds thereunder so that the road and equipment can be kept together, but making the bonds issued for equipment (while not differing as to lien from the longer time bonds) mature serially in one to twenty years, which is about the average life of the equipment, having them paid out of earnings as a regular depreciation charge.

I have had occasion to look into a certain railroad, and I find that at the rate it was charging off depreciation in equipment, it would have had to have lasted 582 years, and that all the dividends that were paid in ten years just about equaled the amount that should have been charged off for maintenance and depreciation.

I think that the present troubles of the railroads can be largely attributed to two causes: bad financing on the one hand; failure to receive authority to increase rates sufficiently to meet increased cost of service on the other, and the tendency is for those responsible for each of these conditions to shift the blame on the other. The greatest obstacle to railroads securing what they really need today is the questionable financial transactions indulged in by the prominent financiers and bankers.

What are some of the remedies? I am aware that it is easy to criticize, but hard to construct. There are practical questions to be faced in all these situations that make it extremely difficult to work out our ideals and theories. I have no sympathy with those who are indulging in wholesale denunciation of railroad management and I believe that this country cannot have permanent prosperity until the railroads can share it. However, we must make an effort to get this railroad financing on a more satisfactory and solid foundation.

Let us provide sinking funds for the payment of mortgages in full. It requires only one-half of one per cent a year to pay off a 5% mortgage in 50 years. In other words, while it requires $50,000 a year to pay the interest on a million dollar loan, an additional five thousand will take care of the principal as well.

Let us have some means of taking care of the bondholders' interests during the life of the bond, either by enlarging the powers of the trustees, or possibly by giving the bonds voting power and a voice in the management of the road. I do not know why this should not be done, especially in cases where there is little equity

in the stock. You will all recollect that some years ago one of our greatest railroad systems was prevented from falling into the hands of a highly speculative clique by the exercise of the voting power of holders of certain issues of bonds.

We investment bankers distribute by far the greater part of the bonds issued in this country, and while most of us do not have the opportunity of originating the larger financial deals, we may nevertheless make our influences felt if we have the courage of our convictions. We ought to be in the position of an impartial judge or jury, able to put a stop to corrupt or incorrect financial practices, and at the same time as representatives of investors, secure for our corporations such fair treatment at the hands of legislators as shall protect the investor's rights.

But, before we will be in a position to do this, it will be necessary to improve our own standards. I am afraid that we cannot entirely escape the responsibility for some of the conditions existing today. Has not the desire to make quick profits or the desire to participate in some large piece of financing caused many a hasty decision which should have been deferred until a careful investigation could be made? However, we cannot help the mistakes that have been made in the past, but we can turn our faces in the right direction, and while the desired results will not be obtained in a day or a year, we can make a start along the line of progress.

The membership of this Association extends from Maine to California. We meet once a year for the purpose of getting better acquainted and discussing matters of general interest. The Association can make resolutions and recommendations for the investor, but it remains for the individual members to put them into practice.

A. C. Foster, *Vice-President*
Sweet, Causey, Foster & Co., Denver

REPORT OF THE PUBLICITY COMMITTEE

In the last annual report of this Committee, you may remember, hope was expressed that during the forthcoming year the activities of the Committee might become less casual and might shape themselves along lines of definite policy. There can be no continuity of personnel in committees. Consequently, if there is to be continuity and evolution in the work — if the Committee is to do things of lasting and cumulative value, successors must build on the accomplishments and experience of predecessors.

Along these lines we have not met our expectations; but not in all respects have we had to build anew from the ground. For example the press now assumes the fairmindedness and good will of the Association and of the Committee. The Committee is consulted by the press as to what is legitimate financial advertising and as to the dealers whose quotations are sufficiently reliable to print. We *are asked* to contribute more articles relating to our Association and our business than we have been able as yet to supply. Again for example, our assistance has been *sought* by a constitutional convention in shaping model legislation regarding the issuance of state and municipal bonds. A group of public service corporations *requested* our efforts in revising the law creating and maintaining the public service commission of that state. We are presently to testify, *by request*, before the public service commission of two other states regarding the proper rate of return on capital invested in public utilities.

Let us enlarge for a minute on one of these illustrations. As you know, the State of New York is about to submit to the electorate a new constitution which in due course will not be revised again for twenty years. At the request of Mr. Henry L. Stimson, the chairman of the Constitutional Committee on State Finance, Mr. Franklin and your Chairman appeared at Albany before the Committee and recommended many radical changes in the laws concerning the creation, issuance and retirement of state and municipal debt. Subsequently a group consisting of Messrs. Franklin, Beebe and your Chairman repeatedly criticized and reviewed the proposed law as reported to the convention with the result that if the people of New York accept this revised constitution investors in New York state municipal bonds will have a quality of protection equalled by only one or two other states in the Union.

The substance of our recommendations has been printed in the Bulletin; but for those who may have overlooked this number we summarize:

I. The present sinking funds, which are greatly in excess of pro-rated requirements, shall not be depleted, but payments hereafter merely shall be sufficient, with accumulations, to complete the funds by maturity of the loan.

II. Purchases for the sinking funds hereafter shall be made after proper advertisement in the large cities.

III. All future state loans shall not exceed the probable life of the improvement, as certified by the chief engineer in the department having jurisdiction over the improvement.

IV. All loans shall mature in serial instalments.

V. The legislature shall provide means and regulations for the exchange of the outstanding bonds for serial bonds.

With gratifying faithfulness the recommendations, except that regarding the advertisement for tenders, have been made part of the proposed amendments, respecting not only state but municipal bonds except that the issuance of serial municipals is optional.

Although this activity has been a local matter it may well prove to be one of the most important undertakings of the Association since its organization, for the Constitution of the Empire State is likely to be a model for many other commonwealths. It was not work peculiarly appropriate for origination by the Publicity Committee if you limit the scope of publicity to press activity. Logically perhaps it was more within the province of the Legislative Committee (but our committee chairmen show no disposition to resent appropriation of their labors). However, appropriate or inappropriate, whether an accident or the result of a settled committee policy, if the work materializes in legislation it will justify the existence of more than one committee over the present life of this Association.

Another casual but none the less desirable undertaking was the pamphlet of joint account forms with considerations affecting joint undertakings. Largely concerned with law, this was prepared for us by Mr. Lyon, at the request of our middle western members who can be presumed to undertake a larger ratio of their joint adventures by telegraph or telephone with firms in distant cities, but this work has received the suggestions of the New York members of the Board of Governors, among others.

The first of the three topics offered by this committee for discussion on the floor is "The Joint Account Pamphlet — Suggested Amendments — Shall the Association make it an official series of Agreements." Needless to say its use or disuse depends on the existence of a real want for it, not upon official sanction. Nevertheless the seal of the Association might expedite its acceptance if it is wanted.

Possibly the publication of a digest of the accomplishments of the Association during three years has been more truly conventional publicity work than anything else your committee has done this year. It may be considered appropriate and directly evolutional; but probably it is one of the less important undertakings. It has been published in several forms, but will be printed soon as a pamphlet for general distribution. Mimeographed copies may be had of the Secretary.

This leads to an inquiry as to whether the committee is dissipating its powers or whether conditions thrust upon it a wider scope of effort than was first intended for it. One takes pleasure in stating that the time seems to have passed when the committee must be an apologist or defender of investment banking. From members the committee still receives numerous notices of belated outbursts against capital and credit by aspiring politicians, *et al.* Each case receives what seems the proper treatment to discourage repetition. Then too, the time has passed — the Investment Bankers Association of America is too well established — to benefit by the publicity regarding itself that is crass advertising.

It seems to your chairman that the change in the character of the work of the committee is consonant with the development of the Association itself, and that this change might be well to recognize by a change in the title of the committee. He ventures the suggestion that if the Committee should become known as the Committee on Public Relations the public might be more receptive to publicity work that is not so labeled by the signature of the chairman of a committee on publicity.

To further the Association's public relations in a way most full of promise to our business your chairman in his private capacity but with the co-operation of the New York contingent obtained the financial support last winter of almost all the bond houses of New York for the Chamber of Commerce of the United States, and subsequently on unanimous vote of the Board of Governors, the Investment Bankers Association of America became a member of this national federation of business groups.

Your chairman has published and sent you a pamphlet outlining the character, accomplishments and purposes of the National Chamber, but he believes that one additional word should be said on the floor of this convention.

The Chamber of Commerce of the United States, like ourselves, is an institution of recent birth; but in approximately three and one half years of active work it has made a deep impress on federal business legislation. With membership representative almost of every state in the union, but with no political complexion, its ideas and specific suggestions are sought by the administration, senators and congressmen. It has become the official representative of business, as the farmers granges and the Farmers Union represent agriculture and the American Federation of Labor represents the working man.

The economic readjustments that are taking place so rapidly in this country will undoubtedly be accelerated by the European conflict, and in certain countries may be of scope and intensity perhaps paralleled in history only by the granting of the Magna Charter and by the French Revolution.

Whether or not these changes ultimately prove of advantage to the race, no thoughtful man will deny that any form of revolution is at least temporarily subversive of invested interests. There never is a momentous swing of the pendulum that does not overcarry the mean.

All this is not mere generalization. Never were Cleveland's words more truly spoken than now,— of our own business: It is a condition, not a theory that confronts us. Laying aside impending problems; the change in interest rates, taxation, legislation regulative of common carriers and of our business, all these and many more are having a revolutionary influence on what things we can sell and the worth of them. By joining the 600 Chambers of Commerce, Boards of Trade, Business Mens' Associations and 2000 or more business firms that compose the National Chamber we are in a position to contribute our share towards stabilizing the business structure, and we are in a position to press our own views and necessities which are so particularly affected since we are in a real sense guardians of vested interests.

This convention can be better employed than in reviewing other and miscellaneous activities of the Publicity Committee. Sufficient here that in answer to various calls from our members and in the routine performance of our duties we have this past year made many trips and travelled many thousands of miles from Maine to Virginia and from Boston to Seattle and hope before the year is out to have visited the offices and obtained the ideas and viewpoints of two-thirds of our members for what inference and inspiration they may be to our work.

With this purpose we lunched recently with Mr. George B. Caldwell who had such an interesting concept of further publicity work for this Association along lines not yet attempted that we have asked him to present his thoughts after this

report. As we have already stated elsewhere the Investment Bankers Association of America is the best piece of publicity the investment business ever had. Therefore Mr. Caldwell, who was Father as well as first President of the Association, speaks with the weight of one who has made good.

In closing, the committee proposes for discussion on the floor the topic "Advertising Which is not Misleading," under the leadership of Mr. Harry E. Weil who has some very good thoughts for us on this subject that are a fitting sequitur to what Mr. Caldwell has to say about our business ethics.

Therefore, Mr. President, the committee offers for the Forum:

1. Mr. Caldwell — Publicity as Affecting the Investment Banker.
2. Mr. Weil — Advertising which is not Misleading.
3. Mr. Lyon — An explanation of the proposed joint Account Forms.

LAWRENCE CHAMBERLAIN, *Chairman*

Mr. Chamberlain: Either in connection with this report or Mr. McNear's report, Mr. Lyon will be glad to answer any questions concerning the joint account pamphlet that was sent out. [Applause.]

The President: If there is no objection, this report will be received and ordered to be printed. Mr. Caldwell, we will be very glad to hear from you.

Mr. Caldwell. Mr. President, and members of the Investment Bankers Association of America: During the two years I was president, and since, I became acquainted with a very large field of activity in the direction of greater publicity; it grew up in our consideration and work with the railroads; I found it with the express companies; I have found it with the United States Chamber of Commerce; I have found it with the Pan-American countries, who are maintaining a large bureau for publicity purposes and are employing a great many very able men to represent them in this country. I find it in nearly every industry, and I have thought, perhaps, at this time, we might emphasize the fact a little further by discussing it here for a few minutes, and I shall add a little, and only a little, to what Mr. Chamberlain has said to you.

PUBLICITY AS AFFECTING THE INVESTMENT BANKER

George B. Caldwell
Ex-President, Investment Bankers Association of America

I have listened with interest to the report of our Chairman of the Publicity Committee. I move the adoption of his report, but before voting upon it, I will presume upon your valuable time for a few minutes to impress upon you what seems to me to be a very important thing to the success of any person or business or any organization, and that is the right kind of publicity handled by competent agencies. I am sure you will agree with me that our growth and good work thus far has been made many times more valuable because of a broad policy of unselfish publicity ably handled by the New York News Bureau aided by the financial and local press.

As investment bankers this was something we could not enjoy individually nor, if we did, would it be received as impartially as is an act of this organization. Being merchants in stocks and bonds, the problem of production and distribution, the elimination of waste and famine, the waging of wars, the getting of the products of the world and putting them where they are accessible to all, are the problems above mere office routine and are, after all, the great questions demanding our best thought, as well as that of all other business with which publicity plays an important part. I know you recognize, as I do, that our responsibility individually and collectively does not begin and end in one transaction nor in one convention, nor in securing money for corporations and municipalities once, but many times; nor can all our problems ever be solved. Problems we shall always have, and our organization yet young, must grow strong in numbers, strong in experience and continue to use its force as a unit to secure whatever we shall aim to achieve.

The question is: do we understand better than any other organization the dependence upon each other of producer and consumer and both upon a market, and that publicity is our one great agency for securing greater and better results.

Looked at from the inside of a bond house, our publicity

responsibility is twofold: first, care as to the quality of securities offered to the public by our corporations and municipalities, and ourselves; and, secondly, salesmanship or publicity we use in their distribution.

Just here I want to say to you that the greatest reason I and the others associated with me had for calling this organization into being, three years ago, was a state of mind or a public sentiment that I found existed which was largely the result of disclosures of bad business management and wrong methods of financing, which sentiment, if allowed to go unchecked and grow into laws might become a negative force to all lines of business especially our own. It seemed to me, and those associated with me then, as it does today, that we must give greater publicity to our business and in fact to all business. To throw the spotlight of publicity upon what only a small percentage of the public understood, namely, investment banking, was one phase of our business that needed an organization wherein there was a common interest, and that any campaign of broad publicity to be effective, or even partially so, was a work above and beyond any individual house, but one that an association of houses working unitedly could well afford to undertake. This is all set forth in the preamble that was adopted at our first meeting and has been uppermost in all our efforts. It is my judgment that we have dignified our business and have already returned value received to our members. We have changed prejudice into reason and halted much bad and ill advised legislation in all the important states in the Union and we have saved some investors from bad investments and some from losses. Another justification for this association has been the change in business methods even in five years, due to a greater publicity which the public demands.

This is an age of publicity. There is a world of sense in the saying—"Sell your hammer and buy a horn," if for no other reason than because publicity establishes stable business conditions and begets confidence and this makes a market.

Publicity is of many sorts. There are those who think that the display of words and pictures in newspapers is good publicity. It is only good for a certain time and for a certain purpose. Many small cities fight fire by ringing a bell but alarms do not prevent fire. It is advertising, however, and while all advertising may

be publicity, all publicity is not, in the general acceptance of the term, advertising.

Advertising is systemized selling. Publicity has for its aim the accomplishments of a definite purpose, by moulding the minds of groups of people to one common way of thinking. Editorials are not advertising, but the highest type of publicity. In this organization our advertising is left to the individual member as are also our other selling forces like our salesmen and our circulars, etc., but the field of publicity is certainly the field of operation for this association. It is the publicity by which the bond business is known and judged, by which this association is known, what it stands for, what it does, and its activity or helpfulness to one another and the investing public. The world will read a frank advertisement and the few interested in it will act upon it, while the rest will speedily forget it. If, as an able statistician claims, there are 20,689,000 families in the United States and but 6.8 per cent have incomes exceeding $3,000 per year, it naturally follows it is from this small percentage or heads of families that we must secure our business from our advertising. Our advertising problem then is to spend our appropriation so that it will reach as nearly as possible that class to which our goods will appeal.

In our publicity, however, we become much broader. We seek to educate people to become thrifty, to buy interest bearing bonds, and we increase our publicity and likewise our responsibility by seeking to have them buy from us. I am told there are today 22,500 publications in the United States of all kinds, 58,000 street cars, and millions of square feet of billboards and dead walls, and a large consumption of electric energy for signs, and $100,000,000. given away as premiums, which in total is a tax laid upon business of over $700,000,000. These are all employed by different lines of business in their publicity, advertising and salesmanship. Mr. Jas. W. Fisk has said salesmanship may be divided as follows:

Attracting attention	20%	— Publicity
Arousing interest	20%	— Publicity
Creating a desire	15%	— Publicity
Closing the sale	20%	— Salesmanship
Securing good will	15%	— Salesmanship
Introducing other goods	10%	— Publicity
Total	100%	

Thirty-five per cent is salesmanship, 65 per cent is publicity and advertising, of this latter sum 55 per cent is straight publicity, and 10 per cent straight advertising; for publicity consists in rendering a public service in which there is no thought of advertising and comes within the first three headings, amounting to 55 per cent of this large expenditure, or $385,000,000.

Publicity, as I conceive it, is "Truth well told." Publicity, therefore, to be effective, must be that sort which breathes the truth. More and more is this fact coming to be recognized by advertising men. The Associated Advertising Clubs of the World, following our example, have adopted the one word "TRUTH" as their motto, determined to put away the temptation of exploiting goods in advertising which will not answer the description of the advertisement. Any article which will not stand up under the searchlight of truth has no place in the publicity copy of today.

We sometimes fool ourselves with that old remark attributed to Barnum, "The public likes to be humbugged," but when we say it, we know it is not so. People do not like to be humbugged but, to our humiliation, we must admit that they have been humbugged so many times that they try to salve the wounds caused by their credulity by the use of some flippant phrase. And the process of fooling the people cannot go on indefinitely, in any given field, for once the people have discovered that they have been fooled they are not going to accept the same statements again. They proceed to create a public sentiment that crystallized in some action for their protection, be it good or bad. Somebody once stated this very succinctly when he said: "If a man fools me once, that is his fault, and I am not to blame; but if he fools me the second time, that is my fault, for I have been forewarned."

The man who sells bonds has a story to tell. He comes before the public not as a suppliant for favors, but one who is giving to the world an opportunity to invest its idle capital and thus increase that capital. To the smaller investor he will appeal through the baby bonds which are now becoming so popular. To the larger investor, the long time bonds, bearing a low rate of interest, or perhaps the short time notes, with a higher rate, are offered. The investment banker seeks on favors beyond those which the operation of legitimate business gives to him. Yet every bond issue and every note issue has its own story and of necessity he

must tell the public what that story is, to show the soundness of the security behind each issue and help the public to a proper discrimination. He is offering to the world the chance to increase the income account. How else save through the medium of publicity can he make the world know of the opportunity which it has of adding to its wealth?

Publicity is the life of business. Whether in the trade or in the professions, the constant, persistent, consistent, truthful advertiser is the one who makes the greatest success.

As I have said, there are many kinds of publicity, and the sort that would apply to one business will not make the proper appeal in another. There are ethics in publicity as there are ethics in professions. The "barker" who loudly proclaims the wonderful things to be seen inside the tent of the side show, with his profusion of words, and, usually, his execrable grammar, would be a poor man to use in front of the office of an investment banker, for, contrary to the opinion of some people, the business of investment banking is not the conducting of a circus.

President Wilson declares that there are times when a man should be too proud to fight. There are never times when a business man should be too proud to advertise, but there are times when he should be too proud to advertise in a certain way. And the kind of publicity which would produce a rush and riot of women at a department store bargain counter, is not the kind of publicity that would sell bonds, or in which this association should ever indulge.

Dignity in copy, rather than the flare of type, is suited to the advertising of a bond business. There is a suggestion of stability in clean cut copy devoid of lithographic features, that lends itself well to the uses of the investment banker. There is an allurement in figures used in bank and financial advertising which would be stiff and out of place in the advertising of other lines of business. But do not, I pray you, proceed on the theory of the sick man, who when given a prescription, decided that if a little of the medicine was good, more was better; and acting on that decision took an overdose so that subsequent events in this world interested him no more. Figures are sometimes staggering, and their intoxicating effect frequently will render the reader unable to see the real purport of the advertisement.

There is no business which offers itself so well to truthful publicity as the honestly conducted investment banking business. Our dealings are divided — first, they are with the corporation or municipality and, secondly, with the public, involving price and quality of goods. If we are to enjoy the confidence of the public, the public must be made acquainted with these things. The surplus account is in their hands and is always awaiting a field for investment. It is daring and yet it is timid. It will sometimes rush in where even angels should fear to tread, but will retreat precipitately at the least suspicion that all is not well. Therefore, there is no business whose publicity should be so clear and unmistakable as the bond business. Confidence is the great asset in banking and investment dealings. It is worth more than actual capital. It is, in fact, the real capital on which the great superstructure of business in this country is builded. Once you destroy confidence you destroy credit and when the latter is destroyed, trade is instantly paralyzed.

So the investment banker of today has a great duty to perform in his publicity work. Whether he does it himself, or whether he employs an able publicity director to do it for him, he must so shape his advertising, his address to the people, his conduct in business, so that there is nothing left to be said. He must reveal himself as the exponent of truthfulness in all his dealings, or cease to be an investment banker.

I approve our publicity as to quality but not as to quantity. We rightfully boast of our ethics and our profession. Each of our members is an expert in his particular field.

We are expert annalists, as well as market experts or distributors. Much of our membership are also bankers. This membership is and always should be limited, yet spread as we are over all parts of the country, we are in the position in which the individual house is not often found; we can command the interchange of views on all topics of interest continually coming before the business world, such as the tariff, the federal reserve system, railroad rate decisions, public service commission decisions, the jitney, labor conditions, effect of the European or other wars on business, and government transactions (both foreign and domestic) and new laws effecting taxation, issuing of securities, court decisions, etc.

We all admit that today we have to read much to get all this, and that 90 per cent of which we read is practically only words, that the real kernel of the subject can be expressed usually in one sentence. Now supposing that our publicity department was under the control of a select type of man, salaried and chosen for his capacity to deal only with cold facts and making a statement of them without expressing an opinion, and that each Monday morning a digest of the facts together with the views of the most astute business minds of the world was placed upon each member's desk. Would not this association perform a service so valuable that you and I could never afford to be without it? Could we not hope to get the support for such a work from associate members who would willingly pay a fair price for the service, and soon have 1,000 or 2,000 additional bank, railroad, insurance, and corporation presidents, et al, eager for our service and interested in us as associate members? But you say: "This is too large an undertaking, and, as a mutual association, we could hardly expect the right management." I admit this is all important, but I know it is possible and would not only unite us as I. B. A. of A. members, but quickly associate us with other interests, which would be the greatest and best publicity we could enjoy.

I know it is not impossible to find a man that stands well in the financial world to undertake this work, and that his services and the printing and mailing of 2,000 copies each week of the *I. B. A. of A. Digest* covering two or four pages could be made self-supporting by subscriptions from our associate members. It will mean, first, the engaging of an experienced financial writer, and a stenographer, capable of gathering, compiling, and publishing as a digest, the weekly happenings in the world that are the most important. Our Digest should not advance arguments, but state facts. It should be void of promotion of persons or any particular enterprise. Once started, it would take the place of our Bulletin and be more valuable; and it will readily find its place and its value in every financial library, and it will be rated and respected according to its standard of truth and impartiality. It is the one field distinct and unoccupied in publicity work by any organization of men of this calibre, and we are, I believe, best qualified to handle it and should not overlook the demand nor the opportunity.

I submit it is possible, it is practical and that it would be highly beneficial, and that an associate membership of 1,000 or 2,000 of the captains of industry and an exchange list with the best journals and magazines will put this association in an advance position in questions of finance where it rightfully belongs. As a collateral to this suggestion, let me read you an extract from an article appearing in *The Outlook* for August, 1915:

> "There is probably no other people in the world," says a recent editorial, referring to the American people, 'with so little investment intelligence in proportion to their capacity to produce and employ capital. Of those who save, only a very small relative number themselves invest what they save.' There are millions of people who do not know the first principles of investments. There are towns and towns where the total of bonds or outside mortgages held does not amount to more than a few thousand dollars, and where individual deposits are lying idle in the bank because local conditions do not afford suitable opportunities for investment. It is obvious that no single investment concern could hope to reach this vast body of prospective investors; the cost would be prohibitive. If there is an organization which can touch them, it must be an organization which does not lose sight of its ideals in the stress of daily business. Perhaps we may expect from the Investment Bankers Association of America propaganda looking toward the education of the investing public in this matter of discriminating between swindlers and legitimate securities.
>
> "It will be observed that the interests of the investing public and the investment banker are identical, viz: to prevent fraud and misrepresentation and to encourage investment along conservative lines."

The banker must educate the depositor, the bond house, the investor. As the depositor is left to choose his bank independently, so the investor must learn to choose his investment without too much support from the banker or the law. Protection is paternalistic; education is democratic. The American people have always shown a preference for the latter and for that reason blue sky laws and other restrictive measures affecting the free-

dom of business are undemocratic and generally unhealthy; and I think I can say their popularity is waning.

On this principle this Association has so far been consistent and given its approval publicly; and this Association, in my judgment, can continue to lend itself to a healthy, dignified, permanent publicity, along the lines I have indicated, that no one else can do better or as well. It may appeal to you at first as a radical departure, but if carefully considered cannot help but appeal to you, as it does to me, as presenting to us our largest and best field of usefulness.

If in your wisdom this is not practicable, then let the publicity work done by this Association be kept up to a high standard and let us have more of it, that its influence shall be good, not only with our members but with the corporations and municipalities producing the products they desire to sell to the best advantage. In this way the confidence of the investor will grow and broaden our markets, and our service and usefulness to our members and the investing public will be increased. Certainly it is our duty to see that we do not use a false or misleading publicity for the mere sake of accomplishing a temporary advantage.

The President: I beg leave to suggest that, with Mr. Caldwell's permission, this report will be referred to the Board of Governors. Is that your pleasure, Mr. Chamberlain?

Mr. Chamberlain: Yes.

The President: Mr. Weil.

ADVERTISING WHICH IS NOT MISLEADING

Harry E. Weil
Weil, Roth & Co., Cincinnati, Ohio

At the request of several large municipal buyers, I am bringing before this convention the subject of advertising, under the title "Advertising Which is not Misleading." The more thought given the matter of proper advertising, the harder it seems to arrive at a determination which will cover all points without seemingly doing an injustice to those who, through their public advertisements and circular offerings, do not intentionally mislead.

For several years this Association has contended with the so-called "Blue Sky Laws" of several states, which have made it more or less difficult for those engaged in the investment business to operate. It has often been said that had the conduct of all those engaged in all branches of security business been such as to avoid criticism, there would have been no necessity for Blue Sky Laws. Also that misconduct in the way of advertising was one of the chief causes which led to the adoption of Blue Sky Laws.

The buyer of one large institution which invests largely in municipal securities recently stated that one of the chief obstacles he had to overcome in satisfying his committee was the fact that due to the laws which govern the purchases for his institutions they could only buy municipal bonds where the security was a direct obligation of all the real and personal property of said municipality, but not the obligation of a subcommunity. Due to other restrictions which his institution imposed, the average yield of their municipal investments was considerably under 5%, and it was seldom indeed that they could purchase a municipal bond yielding 5% or more. Notwithstanding the aforesaid fact, his committeemen constantly come to him and display circular bond offerings and advertisements which they see in the newspapers and magazines headed as follows:

MUNICIPAL BONDS TO YIELD 5¼%	MUNICIPAL BONDS YIELDING UP TO 6%

The complainant stated that through his knowledge of market conditions and various laws of the different states which pertained

C. Edgar Elliott, *Vice-President*
Breed, Elliott & Harrison, Chicago

to municipal securities, he, himself, knew that when he received or saw an advertisement not giving a detailed description, but entitled as quoted: "Municipal Bonds to Yield 5¾%" or, "We can offer you Municipal Bonds Yielding up to 6%," that there must be some ensnarement.

Surely it is an aggravation for a conservative bond house to be deprived of its fruit of advertising by persons whose only thought is immediate gain without regard to the quality of the article dealt in.

It is a known fact that some states have enacted laws during the past few years which permit of the creation of an indebtedness by districts located all or partly within a municipality, and the question is, should such bonds be included under the category of municipal bonds and advertised as such without making any distinction which would permit the investor to know that they are issued by a subdivision of the municipality? If we admit that the bonds of school districts are properly entitled "Municipal Bonds," then we must also admit that bonds of a road district, drainage district, levee district, townships, or any other municipal subdivision may be properly called under the same title. Stretching the point further, why then may not warrants and certificates of indebtedness possibly also be classed as municipal obligations?

Today there exists a tendency to analyze more closely than heretofore the basis on which municipal as well as corporation bond credit rests; and so far as municipals are concerned, I feel that we have not as yet gone far enough in this direction.

The real question for consideration before this Convention is whether the ethics of the investment business permit a dealer to represent to his clientele, or to the public, through newspaper or magazine advertising, that he is offering a municipal bond to yield a net return that at the present age seems prohibitive if issued within the strict term of what is recognized as a straight municipal bond.

I hope that after an open discussion of the subject, this convention may see fit to pass a resolution which will help to inform the public that it is the desire of the members of this Association that all advertisement pertaining to any form of municipal bond should state whether the offerings submitted are an obligation of the entire municipality, or that of a subdivision.

In addition to the facts which have been submitted to you, the following also should be considered:

Financial Statements of Municipalities

A great deal of complaint has been made through the fact that many municipal offerings of improvement bonds issued for the improvement of streets, sidewalks, or sewers, and perhaps one or two other purposes, show financial statements which do not include such debt, when the bonds are indirect obligations of the municipality.

As an elucidation of the above, I would cite the following: In the State of Ohio, street improvement bonds when not issued for the municipality's portion, are an obligation against the improved property. In the event of the owner of the property failing to pay his assessments, the law states that the municipality shall pay the debt out of its general fund without delay to the owner of the security. The recital of the bond also reads that the full faith and credit of the real and personal property of said municipality is pledged for the payment of the bond. Although the recital of the bond reads as stated, many investors, especially insurance companies, have, up to the present time, not recognized such a bond in our state as being a direct obligation of the municipality. Among Ohio investors, however, such securities have been handled and sold as a direct obligation of the municipality. Why then should not such a debt be included in the general financial statement given on a bond offering in said state?

Furthermore, if we are to give those to whom we are offering bonds the true facts pertaining to the financial condition of a municipality whose securities we offer, it would be well for us to discuss among ourselves whether or not debts as are created by a school district or a subdivision of a municipality should be added to the indebtedness of said municipality, especially that part of a subdivision which lies wholly within the municipality.

It might interest you to hear the following, which is a quotation from a letter received from an officer of one of the well known insurance companies in this country:

"My conception of a municipal bond is one that is secured by an official authority to tax all real and personal property in a

community for its payment. Strictly speaking, I suppose a municipal bond is one issued by a city, village, or town, but the term is elastic and is used in speaking of all bonds issued by political subdivisions of a state. I consider road district, school district, and township bonds 'municipal.' Drainage bonds payable out of assessed benefits should not, in my judgment, be so classed. They are quasi-municipals. Warrants should not properly be classed with bonds. They have, as a rule, no fixed maturity and are, therefore, of uncertain value.

"It seems to me that in advertising bonds issued by road districts, school districts, and townships, the titles sufficiently explain the character of the security. Should a dealer, however, advertise, we will say, '—— County Road Bonds,' when in reality the bonds are issued by 'Road District No. 1 —— County,' it would be a misstatement of fact.

"A topic that might well be discussed at your convention, it seems to me, is the practice, which is general among bond houses, of advertising bonds of school districts that are co-extensive with a city, and giving the debt of the school district only, emphasis being placed upon the low percentage of debt to assessed valuation. Take, for instance, the city of ———. I have before me circulars of several houses offering these bonds, in none of which is the debt of the city of ——— mentioned, although the statement is made that 'the school debentures rank equally with the debentures issued directly by the city, since the same property in the school district which is liable to assessment and taxation for municipal purposes is also liable to assessment and taxation for school purposes.' Were there no school district and the bonds issued by the city, the true debt would appear.

"The primary object in publishing the assessed valuation and indebtedness of a municipality, whether it be school district or city, is to enlighten the investor as to the tax burden borne by the tax payer. The above suggestion, naturally, opens a wide avenue for discussion, and it might properly be argued if, in offering a school district bond, the city debt as well as the school district debt should be given, conversely, in offering a city bond, the school district debt should be given.

"In presenting an offering of municipal bond to the Finance Committee of this institution I invariably submit the debt state-

ments of all municipal subdivisions that directly tax the same people, in order that the true tax burden upon the community shall be known. I have observed, in a number of instances, that dealers have taken pains in offering an issue of municipal bonds to this institution to state the indebtedness of all the political subdivisions having power to tax a given community, where the combined indebtedness has been exceptionally small, but never have such statements been made when the debt of any individual municipal subdivision has been large.

"The more closely municipal bond houses scrutinize municipal indebtedness on the above basis, giving careful consideration, in other words, to per capita debt, the greater influence will they have in aiding to restrict extravagance by municipalities. The greatest blow that your business could receive would be default by a municipality of prominence in the payment of legal obligations incurred through reckless borrowing."

I have prepared a resolution which, while not covering all the items mentioned in my discussion, still I believe would serve to properly inform those who receive offerings of municipal bonds as to whether or not it is the obligation of the municipality as a whole; and through the fact that they would be informed that it is not the obligation of the municipality as a whole, they would readily recognize that there must be additional debts than the one given in the offering.

I would be very glad to have the subject I have just discussed receive the consideration of those present, so that a general understanding may be arrived at, as to what action is deemed best for the good of the business.

Now, gentlemen, I have a resolution which I think would cover the facts which I have presented to you. According to the ruling made by the President, however, I do not know whether it is in order to present that resolution.

The President: You may present the resolution, Mr. Weil, if you will, but I think the resolution should go over until it can be passed upon by the Board of Governors.

Mr. Weil: I have prepared a resolution which will not cover all the items mentioned in my discussion, still, I believe, would serve to properly inform these gentlemen as to whether or not there is any obligation on the municipality as a whole; and

through the fact that they would be informed that it is not the obligation of the municipality as a whole, they would readily recognize that there must be additional debts than the one given in the offer.

I would be very glad to have the subject justly discussed in order to receive a consideration of those present, so that a general understanding may be arrived at as to what action may be deemed best for the good of the business.

The resolution which I have prepared is as follows:

"THEREFORE, BE IT RESOLVED that it is the sense of the Investment Bankers Association of America that the members of said association, in any newspaper, magazine advertising, or circular offerings which they circulate, shall show the name of the security in full, and if the obligation is not one of a municipality as a whole, but is issued by a subdivision of some municipality said fact shall be clearly stated; for instance, as follows:

BRAZORIA COUNTY, TEXAS, ROAD DISTRICT No. 1, 5% BONDS."

Now, my only idea in presenting that resolution, and also giving the facts I have, is that I believe the public to whom we offer our bonds is entitled to true facts. There are many investors who come to your office as a banking institution who have practically not the facilities of a well-organized bond house, that come in and ask you for a bond, and if you offer them something they accept your story, or the tale you tell them, and purchase it, but they are buying something under a misrepresentation because they are not as well versed as you; and I believe that all matters, circulars, etc., anything of a publicity nature, should be clear in all respects in order that the layman purchasing a bond may understand what he is buying. I thank you. [Applause.]

The President: The resolution presented by Mr. Weil will come before the Board of Governors and will be presented to the Convention at a later time.

Is there anyone in the Convention who would like to say a word in regard to this problem which Mr. Weil and the Publicity Committee have presented to us? If not, I will ask the Secretary to make some announcements.

The Secretary: There are a number of delegates in the city who have not as yet registered and received their official badges,

and at the close of this meeting if there is anyone here that that applies to, will he please step into the office. The Local Committee wishes me to say that banquet reservations must be made today. We will hold the matter open until the afternoon, but they request that every man here who has not secured his banquet ticket do so.

The Lookout Mountain trip will be at four o'clock this afternoon. The convention will adjourn in time for that, I take it, and the Committee suggests that those who are going to attend the afternoon session make arrangements to have their heavy coats ready so that they may start immediately at the close of the afternoon session. If you will make preparations this noon, instead of waiting until after the convention adjourns, it will save a great deal of confusion and permit the Committee to get the automobiles started in quick order. In order to make this trip attractive we must get away from here very shortly after four o'clock so as to reach the different points where the best scenery can be obtained, and the wonderful sunset may be seen.

A. J. Davis (A. J. Davis & Co., St. Louis): I would like to ask if the cars will leave from this hotel.

The Secretary: This hotel, yes, sir.

The President: Our friends in Denver have made great effort to provide automobile equipment to make this trip. It will be worth our while. If it be your pleasure, this convention will stand adjourned until two o'clock. I would appreciate it if we could assemble here by two o'clock promptly. We will adjourn promptly at half past three and that will give us time in order to take the automobiles at four o'clock.

MONDAY AFTERNOON SESSION

SEPTEMBER 20, 1915

The President: Gentlemen, I think, rather than wait longer for some of these delinquents we had better open our afternoon proceedings; and first, I am going to ask for a report from the Public Service Committee, John E. Oldham, Chairman. Mr. Oldham, if you are ready with report you may now read it. [Applause.]

REPORT OF COMMITTEE ON PUBLIC SERVICE CORPORATIONS

MR. PRESIDENT AND MEMBERS OF THE
INVESTMENT BANKERS ASSOCIATION OF AMERICA:

The Public Utility Committee in its report to the Convention a year ago outlined a programme covering several lines of work which might be advantageously undertaken. Among other things, it was suggested that the decisions of the public utility commissions in the various states should be carefully studied and that each member of the Committee could take part in the work and render a valuable service by keeping track of decisions in his district and reporting any which had a bearing upon the security of public utility investments.

After the adjournment of the Convention, it was found that an organization had already been perfected for undertaking this work in a very complete and comprehensive way. A group of men interested in public utilities (including a member of this Committee) had arranged for gathering all of the decisions of the Commissions in all of the States, and, through a guarantee of a sufficient number of subscriptions to justify the undertaking, had also arranged with The Lawyers Co-operative Publishing Company of Rochester, N. Y., to undertake the work of editing, indexing, annotating, and publishing these decisions. This has resulted in the publication known as Public Utilities Reports, Annotated, by The Lawyers Co-operative Publishing Co. The work is most excellently done. All of the decisions of whatever commission are first critically examined, and all decisions other than those on mere routine matters are set aside for publication; these are analyzed, and the analyses, containing brief statements of the substance of the various points covered by the decisions, are published in the form of head-notes or syllabi.

Every decision is carefully indexed and the indices are arranged topically and alphabetically so as to be readily accessible. The decisions are published first in temporary magazine form known as advance sheets, issued every two weeks, containing full indices, etc.; and as matter accumulates it is published in permanent bound volume form at the rate of a volume about every two months. The mechanical work, itself, of these printed volumes is worthy of comment; the volumes contain some twelve hundred pages on thin India paper, and not only editorial

work but press work and binding are admirable. From time to time important subjects are annotated, and these annotations, in the form of summaries of all preceding cases on the point in question, whether agreeing or disagreeing, are published in both the advance sheets and in the permanent volumes. These annotations, critically comparing earlier with current decisions for practical purposes, make available the whole mass of commission decisions.

The value of this work and its effect on public utilities, their operations, financing, and securities, cannot well be overstated. The assembly and editing eliminates a vast amount of routine and valueless matter which the investigator does not have to handle; the indexing permits the examination of only the points of interest to the reader. The lawyer, the operator, the banker, and the investor can now in a few minutes ascertain the current of commission decisions on such questions as capitalization, competition, rates, depreciation, accounting, amortization, etc., while prior to this publication the same information could not have been procured except with endless drudgery and great expense, if at all.

The publishers have put copies of Public Utilities Reports, Annotated, in the hands of every commissioner in the United States.

The results in standardizing the principles of public utility regulation are evident. Every commissioner announcing a decision knows that it must stand the scrutiny of the industry, the legal profession, and other commissioners throughout the country, or be rejected as unsound. Already an improvement in the character of the various railroad and utility commissions throughout the country is noticeable.

The Committee would call attention to the great value of these reports to bankers dealing in public utility securities, and would go beyond the usual scope of its report in begging to recommend to every member of this Association its financial support of the enterprise which has been made possible not by commercial initiative, but by the disinterested efforts and financial support of those interested in public utilities.

As any original work on the part of the Committee in gathering similar information under the circumstances would have been a needless duplication of labor, the Committee has confined its efforts in this line of work to studying the decisions published by this Association during the year with particular attention to such decisions as indicated the policy and practice of the various commissions in any or all matters which involved principles relating to the issue and stability of securities. It may be stated here that the decisions rendered during the past year seem to indicate a growing tendency on the part of the commissions to recognize the general principles which are essential for the security and protection of capital investments; and although there have been instances where the application of these principles have not been entirely satisfactory, nevertheless, on the whole it may be said that able and fair decisions rendered from time to time by the older and more experienced commissions are creating precedents which will have an important influence in satisfactorily solving many of the vital problems affecting public utility investments.

In the report of last year attention was also called to the desirability of extending the scope of savings bank laws so as to make public utility bonds more generally available for savings bank investment. The committee has made some study of

this subject during the year and desires to bring the matter more fully and definitely before the members of the Association for their consideration.

While the savings bank laws of a few states have attempted in the past to deal with the problem of allowing investment in bonds of public utility corporations, it will be found that this has been done only in a very limited way; and it therefore appears advisable not only to take up the question of making existing laws more comprehensive, but also to attempt to secure a more general adoption of such laws by other states.

In order to properly safeguard the interest of savings bank depositors, it would be necessary in taking such a step in the first place to establish a standard which would represent only those bonds that afforded unquestioned security. Before attempting to seek for the elements of such a standard, it may be well to look at some of the considerations that make it advisable to admit public utility bonds at all into the class of savings bank investments.

The main purpose of our savings banks is not only to care for the savings of people with small means and limited income and furnish a place where these small savings can be kept more safely than the circumstances of the depositors usually afford, but also to invest these savings so as to yield an income to the depositors, who often have not the knowledge necessary for making investments for themselves, or sufficient amounts of savings to be invested to advantage.

From the point of view of protection to the savings, there is the responsibility of investing these funds so that they are safe and can be readily converted into money; from the point of view of return on these savings there is the further responsibility of investing so as to secure as large an income for the depositors as is consistent with safety. In view of these responsibilities, it seems desirable to allow as broad a range of investments as possible, partly to afford opportunity for the exercise of preference and partly to allow investments to be diversified as much as possible.

It has been considered in the past that loans on real estate, and loans to municipalities and railroads provided the best means for meeting the requirements for savings bank investments. In all of these cases there was the recourse of property which could be taken over or devoted to the satisfaction of the loan if principal or interest was in default; and in all cases, if loans were intelligently made, the security for the loan was properly devoted to some permanently useful purpose, thus giving it earning power and a value based on the earning power. The savings bank laws have attempted to limit investments to securities based on properties which fulfilled the conditions outlined above.

In the past the railroad has been the only type of corporation which has been generally recognized as offering this kind of security adapted to savings bank investment. The property of a railroad being devoted to necessary and useful purposes has been considered permanent and safe against abandonment. The needs of the people served by the railroad have been considered to provide a permanent demand for the service and to give the necessary assurance that this service would be paid for. The publicity given to the affairs of the railroad has made it possible to approximate the cost of service and profit from operation; and it has been possible to determine within reasonable limits the amounts of securities on which returns could be fairly expected, so that in a majority of cases it has not

work but press work and binding are admirable. From time to time important subjects are annotated, and these annotations, in the form of summaries of all preceding cases on the point in question, whether agreeing or disagreeing, are published in both the advance sheets and in the permanent volumes. These annotations, critically comparing earlier with current decisions for practical purposes, make available the whole mass of commission decisions.

The value of this work and its effect on public utilities, their operations, financing, and securities, cannot well be overstated. The assembly and editing eliminates a vast amount of routine and valueless matter which the investigator does not have to handle; the indexing permits the examination of only the points of interest to the reader. The lawyer, the operator, the banker, and the investor can now in a few minutes ascertain the current of commission decisions on such questions as capitalization, competition, rates, depreciation, accounting, amortization, etc., while prior to this publication the same information could not have been procured except with endless drudgery and great expense, if at all.

The publishers have put copies of Public Utilities Reports, Annotated, in the hands of every commissioner in the United States.

The results in standardizing the principles of public utility regulation are evident. Every commissioner announcing a decision knows that it must stand the scrutiny of the industry, the legal profession, and other commissioners throughout the country, or be rejected as unsound. Already an improvement in the character of the various railroad and utility commissions throughout the country is noticeable.

The Committee would call attention to the great value of these reports to bankers dealing in public utility securities, and would go beyond the usual scope of its report in begging to recommend to every member of this Association its financial support of the enterprise which has been made possible not by commercial initiative, but by the disinterested efforts and financial support of those interested in public utilities.

As any original work on the part of the Committee in gathering similar information under the circumstances would have been a needless duplication of labor, the Committee has confined its efforts in this line of work to studying the decisions published by this Association during the year with particular attention to such decisions as indicated the policy and practice of the various commissions in any or all matters which involved principles relating to the issue and stability of securities. It may be stated here that the decisions rendered during the past year seem to indicate a growing tendency on the part of the commissions to recognize the general principles which are essential for the security and protection of capital investments; and although there have been instances where the application of these principles have not been entirely satisfactory, nevertheless, on the whole it may be said that able and fair decisions rendered from time to time by the older and more experienced commissions are creating precedents which will have an important influence in satisfactorily solving many of the vital problems affecting public utility investments.

In the report of last year attention was also called to the desirability of extending the scope of savings bank laws so as to make public utility bonds more generally available for savings bank investment. The committee has made some study of

this subject during the year and desires to bring the matter more fully and definitely before the members of the Association for their consideration.

While the savings bank laws of a few states have attempted in the past to deal with the problem of allowing investment in bonds of public utility corporations, it will be found that this has been done only in a very limited way; and it therefore appears advisable not only to take up the question of making existing laws more comprehensive, but also to attempt to secure a more general adoption of such laws by other states.

In order to properly safeguard the interest of savings bank depositors, it would be necessary in taking such a step in the first place to establish a standard which would represent only those bonds that afforded unquestioned security. Before attempting to seek for the elements of such a standard, it may be well to look at some of the considerations that make it advisable to admit public utility bonds at all into the class of savings bank investments.

The main purpose of our savings banks is not only to care for the savings of people with small means and limited income and furnish a place where these small savings can be kept more safely than the circumstances of the depositors usually afford, but also to invest these savings so as to yield an income to the depositors, who often have not the knowledge necessary for making investments for themselves, or sufficient amounts of savings to be invested to advantage.

From the point of view of protection to the savings, there is the responsibility of investing these funds so that they are safe and can be readily converted into money; from the point of view of return on these savings there is the further responsibility of investing so as to secure as large an income for the depositors as is consistent with safety. In view of these responsibilities, it seems desirable to allow as broad a range of investments as possible, partly to afford opportunity for the exercise of preference and partly to allow investments to be diversified as much as possible.

It has been considered in the past that loans on real estate, and loans to municipalities and railroads provided the best means for meeting the requirements for savings bank investments. In all of these cases there was the recourse of property which could be taken over or devoted to the satisfaction of the loan if principal or interest was in default; and in all cases, if loans were intelligently made, the security for the loan was properly devoted to some permanently useful purpose, thus giving it earning power and a value based on the earning power. The savings bank laws have attempted to limit investments to securities based on properties which fulfilled the conditions outlined above.

In the past the railroad has been the only type of corporation which has been generally recognized as offering this kind of security adapted to savings bank investment. The property of a railroad being devoted to necessary and useful purposes has been considered permanent and safe against abandonment. The needs of the people served by the railroad have been considered to provide a permanent demand for the service and to give the necessary assurance that this service would be paid for. The publicity given to the affairs of the railroad has made it possible to approximate the cost of service and profit from operation; and it has been possible to determine within reasonable limits the amounts of securities on which returns could be fairly expected, so that in a majority of cases it has not

been proven difficult to recognize unprofitable or overcapitalized railroads; and while there have been many properties that have made serious failures, these have, in almost every instance, been failures caused by violating fundamental principles of good practice in operation or financing. It may be said that savings bank laws, the provisions of which were based upon a correct understanding of sound financing, have permitted investment in the securities of only those railroads which have financed along sound lines; and the principal and interest of bonds which have met the requirements of these laws have almost invariably been found to be well protected.

In view of the increasing reliability and better established market it would seem logical to include among savings bank investments public utility bonds which were properly safeguarded, if it can be safely done, thus broadening the field of investment and for the present at least giving the banks the opportunity to increase the rate of return on their investments.

It is believed at the present time that the best of the public utility corporations furnishing local transportation and lighting and power facilities show the characteristics necessary for safe investment, as described above, to as great an extent as railroad corporations; and under conditions of prosperity or adversity, public utility corporations, observing financial and operating requirements such as are necessary for the successful conduct of any business, have the fundamental characteristics which entitle them to such consideration.

The services of local transportation and lighting and power companies are useful and necessary to the public and exist in almost all instances as the result of an effective and permanent demand. They are operated at rates which are more or less standardized to allow a fair return on a prudent investment, and for the most part, these rates are supervised by commissions which appear to be showing a growing appreciation of the necessity of requiring the public to pay for the service an amount sufficient to cover the cost of producing the service and provide a fair return on the amount invested in the machinery of production and distribution.

There are cases, just as in railroad properties where companies have built unwisely or financed unwisely, and there are cases where defective local laws or unwise local opinion have permitted destructive competition or have hampered companies by franchise disputes. And it is equally true that some companies have brought such troubles upon themselves by short-sighted policy and practice. It is, however, a part of the task of framers of laws to exclude companies suffering from these disadvantages, just as has been done in the previous laws regulating railroad investments, rather than to shut the doors on all utility investments, good and bad alike.

The comparative freedom from complication of such properties makes the amount of legitimate investment and of legitimate operating expense practicable to obtain. Consequently the rates and amount of fair return may be calculated by engineers and commissions, and from these may be ascertained the fair value of the property and the amount which may safely be lent with the property as security.

Perhaps the most important reason for considering the broadening of savings bank laws to include public utility bonds is, as has been stated, because the

income of the savings banks could be materially increased thereby, for investments in public utility bonds can be safely made which will yield from 1 to 1½ per cent more than similar investments in either municipal or railroad bonds, and further such investments may confidently be expected to show equal stability in market value. It may be of interest to note that during the past ten or fifteen years experience clearly shows that public utility bonds, of a standard which would meet the requirements of a properly drawn savings bank law, have proved more stable in market value than either municipal or railroad issues.

In a paper read before this Association two years ago it was shown from carefully prepared data that an investment of $1,500,000 in well selected public utility bonds divided among twenty-nine issues purchased $150,000 annually at prices prevailing during the period 1902 to 1912 could have been liquidated on July 1, 1912 to much greater advantage than similar investments in either municipal or railroad bonds made on corresponding dates.

It was stated in this paper that the income derived from the $1,500,000 bonds from the date of purchase to July 1, 1912 would have been $487,500 and that there would have been a gain in market value of $27,377, making a total of $514,877. This compared with an income from the same amount of high-grade municipal bonds of $326,551 which was offset by a loss due to depreciation of $106,989, leaving a net of $219,562; this further compared with an income from a similar investment in railroad bonds of a good standard of $399,691 offset by a loss due to depreciation of $70,065, leaving a net of $329,626.

The net advantage in income and market value, therefore, by the purchase of public utility over the same amount of investment in municipal bonds amounted to $295,315, and over railroad bonds $184,891. A comparison of prices at the present time indicates that this advantage has been maintained especially in comparison with railroad bonds. Comparisons based on current prices of the same public utility and municipal bonds as of July 1, 1915 show that the amount of income of these public utility bonds during the three-year period, July 1, 1912, to July 1, 1915, amounted to $225,000 against $157,500 for the municipals—a difference of $67,500. Although special conditions during the past two years have created an abnormal demand for municipal bonds, prices as of July 1, 1915 are not materially different from those prevailing on July 1, 1912. While the prices of the public utility bonds have shown losses varying from one to five points, the average loss has been fully offset by the difference in income. Comparison with the investment in railroad bonds shows that the income from the public utility bonds has been approximately $45,000 greater, and there has been a further advantage, due to less depreciation in market value, of over $100,000.

The advantage which public utility bonds offer in the way of return and stability in market value should make this a subject of importance and interest to those responsible for the welfare of our savings institutions. The development of a broader market for public utility bonds would be an advantage which should likewise make this subject of interest to those responsible for the financial management of public utilities companies. The committee prepared some suggestions which in its judgment should be recognized in any legislation, along these lines which it intended to submit as a part of this report.

While there is no difference of opinion among the members of the Committee as to the desirability of surrounding these investments with every safeguard and there is entire harmony as to the end to be attained, the Committee as a whole has not had opportunity to give as full consideration as it desires as to the best means of accomplishing these results, and it believes, therefore, that it is advisable to defer the submission of definite suggestions until a later time.

The Committee had hoped also that it would be possible to have a general discussion of the subject at this time; but the time is so limited that it is hardly possible to do more than present some of the reasons for its conclusion that it is most desirable that the effort should be made to secure legislation along these lines with the hope that by so doing it may create a more general interest in the matter which will result in some definite constructive work during the coming year.

The Committee recommends that this matter be given further consideration by the Public Utility Committee or by some specially appointed committee if it seems advisable, and that a report containing definite suggestions covering provisions of laws which would make public utility bonds suitable for savings bank investment be submitted to the Board of Governors at their next regular meeting.

The Ferris Bill

The Committee has also given some consideration to the program of federal legislation affecting water-power development and desires to bring this matter to the attention of the convention:

At the last session of Congress, there passed the House of Representatives a bill providing for the occupation of the public domain in connection with water-power development known as the Ferris Bill. After being substantially changed and amended, this bill was later favorably reported by a majority of the Committee on Public Lands of the United States Senate. The sponsors for this proposed legislation stated that it was designed to promote and encourage the development of water powers and the use of the public domain in connection therewith, and to remedy the existing unsatisfactory state of the law on that subject.

We believe that no legislation will be effective which does not afford to the investor permanency and security of tenure with a positive legal assurance that no part of the investment will be confiscated. The tenure should be for at least fifty years and should continue thereafter, unless revoked for cause, up to such time as the Government might exercise its right of taking over the property of the company, and when this right is exercised, it should only be by paying to the company the then fair value of all its property including everything to which the investment has actually been devoted. The Ferris Bill, as we understand it, as it passed the House of Representatives required the guarantee to give the Government an option on its property, but on terms which deprived the company of substantial rights. First, the company was deprived of any appreciation in land values. In other words, although at the time of obtaining the permit to occupy a small fraction of the public domain the company might own in fee a large amount of land which had, up to that time, greatly appreciated in value, nevertheless, as a condition of obtaining the permit from the Government, the company was obliged to agree to sell to the Government all of its land then owned and thereafter acquired at original cost. Second, the company was also deprived of any investment which it might

FREDERICK R. FENTON, *Secretary*
Devitt, Tremble & Co., Chicago

have made in so-called intangible elements — elements which are recognized by the courts and public service commissions as legitimate and essential. These provisions of the bill, in our judgment, would be absolutely fatal to any investment in water powers on the public domain. The bill as reported by a majority of the Public Lands Committee of the Senate gives the Government an option upon the generating, transmission, and distributing system at its fair value, excluding going value. Going value is likewise recognized today by courts and public service commissions as an integral and essential part of the investment, and its exclusion would result in confiscating the investment to that extent.

A careful consideration of this bill leads us to the conclusion that both in the form as passed by the House of Representatives and as reported by the Senate Committee it cannot and will not accomplish the expressed purpose of its sponsors, but that it will discourage instead of promote the development of water powers on the public domain. We believe it would be both unwise and unsafe for capital to invest in such enterprises under the terms of this bill.

Respectfully submitted,

JOHN E. OLDHAM, *Chairman*

The President: If it be your pleasure, gentlemen, this report will be received and ordered printed, and if it be further your pleasure I should like to ask Mr. Byllesby to speak. After he has finished his remarks we will be very glad to have an open discussion on any matters presented in the report on what Mr. Byllesby has to say.

One or two gentlemen have said to me that they feel every opportunity should be given to discuss these public utility questions. We will try to find time to do that this afternoon. I might now say that speaking not only on this point but further, that we hope tomorrow afternoon to have time enough to take up the back things in any subject which has not been fully covered to the satisfaction of any member of the convention. If anyone has an idea that you believe is worth while to the rest to know and hear we are going to give you an opportunity to say it. Now if you believe there has not been definite action taken by the convention on some particular subject you are interested in it is your fault and yours alone if you do not bring it up and let us know whether we would care to or not. An opportunity will be given you.

Gentlemen, we will be glad to hear from Mr. Byllesby. [Applause.]

Mr. Byllesby (H. M. Byllesby & Co., Chicago): Mr. President and Gentlemen: I feel it a great honor, and I regard it as a great privilege to be allowed to speak to you this afternoon on

the general subject of water powers. I must ask your patience and indulgence for a very sore throat which I have contracted in this high altitude of Denver.

I approach this subject willingly and gladly. In a very modest way I have devoted the larger part of my life to water-power developments. My first actual contact with electricity as developed by water powers was in the late fall of 1882, when, as a young engineer of the then Edison Electric Light Company, on about ten hours' notice, I was ordered to Canada to build in Canada the apparatus to fulfill certain contracts which the commercial department of the Edison company had taken. Their law department advised them — and in which they were correct — that if that apparatus were shipped into Canada from the United States, under the patent laws as then in force, they would forfeit their Canadian patents and likewise invalidate their American patents. However, I started on my mission, and the two plants were both driven by water powers on the St. Lawrence River.

Now, that goes pretty far back in the water-power situation. Since then, again in a subordinate capacity, I was, perhaps, the instrumental factor in bringing about the development of the water powers at Portland, Oregon, at the hands of the corporation which we formed in the summer of 1892, which was known as the Portland General Electric Company, which developed the water powers on the Willamette River. Subsequently, and again in my earlier career and while still a young man, I built, in 1897, the original water-power development and laid out the system which has since developed into that of the Montana Power Company; and, notwithstanding the fact that I lost every cent I had in the world — and a good deal more, in fact — in this early development; it has since grown into a decidedly prosperous proposition.

Since those dates I have been connected with a large number of water powers, the last of which was one which was completed by our organization about a year ago on the Mississippi River, above Minneapolis. And I want to say, gentlemen, that in that long career,— I started in from the engineering standpoint, with all the ambition, all the high ideals which we young fellows of that age received from Mr. Edison and Mr. Coffin and Mr. Westinghouse — that water power which our organization finished

on the Mississippi River, above Minneapolis, less than a year ago, is the first water power, to my knowledge, which has ever been finished at approximately the estimated cost.

Now, I thought you would not misunderstand my making these few opening remarks. Generally, a man who is honored by being asked to address a convention of this type, who is privileged to do it, feels that his audience would like to know that he is speaking from experience, and not, in modern parlance, from "hot air." Lord Macaulay states that any man who has once learned to talk on his feet (and he intimates that, after all, it is one of the simplest things to learn, being bottomed primarily on what is termed "nerve,") can be called up and will speak, as Lord Macaulay says, effectively on any subject, no matter whether he knows anything about it or not. Now, I wanted you gentlemen to know that on this question of water powers, which you have asked me to address you on this afternoon for a few moments, I am speaking from an experience which now runs over at least thirty-three years.

On the part of the balance of my address, I was somewhat in a quandary. My current habit is to speak extemporaneously; but I felt that before this audience I would be expected to be specific, and after advising with friends, I find myself very much in that condition John Bunyan said he found himself in after he composed "Pilgrim's Progress," and which he expressed as follows:

> "Some said John print it; others said, not so;
> Some said it might do good; others said no."

So I have printed mine.

THE CESSATION OF HYDRO-ELECTRIC DEVELOPMENT IN THE UNITED STATES

H. M. Byllesby
President, H. M. Byllesby & Co., Chicago

The development of water powers in the United States has reached a pause, and at the present time and for the past year or more has been more than stagnant; in fact, it has practically ceased. Some of the principal reasons for this are the following:

1. The disappointing results, from the financial standpoint, which have been reached by the majority of the water-power developments.
2. The attitude of the federal government, and in many cases of the state governments, relative to the legislation enacted, interpreted, or threatened.

There is a large amount of undeveloped water power in the United States, and this power, when developed, will accomplish a pronounced economic gain to the country at large, and specifically to the communities in which the development takes place or in which the product is sold. Also, these water powers, so long as they remain idle, represent a direct economic waste, because if these idle water powers were developed and were manufacturing useful power, they would either reduce the consumption of coal, and thus conserve a natural resource of certain definite, but limited, proportions, or in other cases would furnish power for at present non-existent enterprises, which would add to the prosperity of the communities served, of the country at large, and increase the total wealth of the country.

The development of hydro-electric properties, combined with transmission lines, on a large scale, has been a development of comparatively few years. Many problems had to be solved. Difficulties were encountered which were beyond the reach of all previous experience, and, in general, the experience of the hydro-electric developments now completed has, on the average, been one of pronounced financial disappointment. This is due partly to the general excess cost of these developments beyond the amount estimated and for which capital had been found. Also,

and again on the average, disappointing results were reached from the net income standpoint. This, in itself, without the uncertainty as to the attitude of the federal and state governments which has recently developed, would have caused a pronounced slackening in the development of these hydro-electric enterprises. These uncertainties have been alone sufficient to work a pronounced cessation, at least for the time being, in the further development of these enterprises. In fact, they have passed through their experimental period as regards the engineering and constructive features involved, and have likewise passed through the experimental period as regards a fuller knowledge of the possible returns, the necessities which exist, in nearly every case, of ample steam reserves, the rates of return required to make the investment reasonably profitable, and, by no means the least, it has been fairly well determined as to how much power, on a reasonably profitable rate, a given community or a given transmission line can support.

However, capital, in many cases,— in, I believe, the majority of cases — was becoming somewhat skeptical as to the return to be reached from these developments, and this skepticism was certainly pronounced as to how speedily any reasonable returns would be reached. There are comparatively few hydro-electric developments which have immediately found a reasonably profitable market with the completion of the developments. It has been found that, in order to sell the output on a basis which would yield a fair return, patience and time are required for the sale of the product and the development of the system.

The public, who have not had the time and, in the large majority of cases, the experience, to thoroughly analyze and understand these facts, have been broadly divided into two groups: those who, through a more or less disappointing experience, had come to the conclusion that, for the time being, they would invest no further on a large scale in hydro-electric developments, and those having had no hydro-electric investments and who had formed their opinion from the vast amount of agitation on the subject — much of this agitation having emanated from the departments of the federal and state governments and from certain political parties,— that the ownership of a hydro-electric property, whether developed or undeveloped, was equivalent

to the ownership of a gold mine. The result has been that, due to all the foregoing conditions, and again disregarding the menacing attitude of the governing bodies, the constructive organizations who have been identified with water-power developments in the past have, for the last few years, found it increasingly difficult, and in many cases impossible, to enlist further capital in the development of such enterprises, while, on the other hand, those who had no knowledge of the conditions but had simply read the vast amount of published matter, political and otherwise, had formed the opinion that a water power, *per se* and as such, was about the most valuable possession which any human being could own.

The point I am endeavoring to lay before you is that, like every other enterprise which has gone through a pioneering and experimental period, the original hopes had, in the majority of cases, proved disappointing. Now that the technique of the business is understood and the experimental features very largely overcome, this business, like practically every other business in life, has developed into the requirement for most careful study in each given case, skillful constructive and engineering talent, careful, prudent and economical management, and with all these granted and no unfair interference on the part of regulatory bodies, a resulting business which can be regarded as satisfactory as what is generally known as a good business enterprise.

Now, on top of the foregoing situation, which had developed irrespective of threatened adverse legislation, is the additional and most serious situation presented by proposed laws governing the development and operation of hydro-electric projects. My judgment is that, in order to bring about a renewed development of water powers, all laws and regulations, whether federal or state, must clearly define and provide for the following fundamental facts, as otherwise it will be impossible to enlist capital for the further development of these powers on any large scale:

(A) Admitting the demands that these corporations or developments shall be sternly regulated by governing bodies as to the rates at which they can sell their output and the conditions under which they can sell it; then, ancillary to this, as a distinctly necessary corollary, must be the regulation of the taxation of these enterprises by the same body who fixes their rates. It appears monstrous that an organization such as we are considering should have its rates fixed by one governing body, and its taxation fixed by another

independent governing body having no relation with the rate-fixing body. The result, which is no mere supposition, but which in notable cases has occurred, is the cutting down or annihilation of the profit — modest at best — which has been allowed by the rate-fixing body, due to the action of the independently-operating taxing body.

The question just touched upon is one of far-reaching interest in every department of public utility enterprises, and it is a crying shame that in so many cases the public utility should be regulated as to rates to an assumed narrow, or even fair, margin of distributive profit, while in the next week or the next month, by an independent and separate body, its taxation may be raised so as to seriously cut into the profits which had assumedly been allowed by the rate-regulating body.

(B) In the view now strongly held by the governing bodies of our country, the distributive return on the capital invested in hydro-electric properties is to be limited to a certain maximum, which will represent not more than a reasonable return upon the actual cost of the property. Now, assuming that the reasonable profits of the hydro-electric company are not diminished by unfair taxation, it must be firmly kept in mind that the maximum rate of return in prosperous years is limited to a reasonable profit on the actual cost of the development, and that no provision whatsoever is made, or has been heretofore contemplated, for the regulation of the rates so as to compensate the hydro-electric enterprise for those inevitable periods, due to general slackness of business or adverse conditions or accidents, when their profits in a given period fall below, perhaps far below, the amounts arbitrarily allowed by the regulating body. That is to say, that a regulated organization of the type under discussion has a certain maximum possible profit or earning capacity allowed to it, and that this is the best which it will be allowed in any period or under any condition; notwithstanding the fact that the capital invested in such an enterprise must face the inevitable likelihood of lean years occurring, due to any of the causes enumerated, and the profits falling below the arbitrary amount which it is allowed to earn under the best of circumstances in prosperous years.

A water-power development, which has its rights in perpetuity and under regulation as to rates, would, in some cases, if the rate regulation and the taxing assessment were conducted with fairness and prudence, be able to provide the capital for its development. If these rate regulations and taxing provisions wère handled fairly and satisfactorily, capital would commence to flow into the development of these enterprises with increasing speed, because under the conditions named it would feel assured, upon all reasonable business grounds, that while its maximum profits would be of a comparatively narrow amount, yet the business would be stabilized, there would be no haunting fear of confiscation, due to some popular clamor or some unfair legisla-

tion; and under those conditions it would prove an inviting field for further investment of capital. In my judgment, however, capital will not enter into this business, at least on any large scale, so long as, combined with a possible maximum modest return upon the capital, there is coupled the sword of Damocles, in the existence of expropriation rights on an unfair basis of valuation, the liability of unfair and excessive rise in taxation without a contemporaneous adjustment of maximum rates, and unless capital, broadly, has a reasonable assurance that it will be undisturbed in the enjoyment of the enterprise that has been built up along the regulatory provisions herein specified.

The most prominent legislation on the question of water powers before the last Congress was the so-called Ferris Bill. There is every indication that this bill will again be brought forward at the approaching session of Congress. There are many serious objections, in detail, to the provisions of this measure. In general, these objections have been dealt with previously in these remarks. They can be summarized, without an attempt to refer to specific paragraphs, as follows:

(A) An uncertainty of tenure of the water-power privileges and the attendant development beyond an original arbitrary period of fifty years.

(B) A provision of being regulated, under the conditions of the bill, in one class of cases by the Department of the Interior; in another class, by the Interstate Commerce Commission; in another class, by the individual public service commissions ruling in the states in which the development exists; and by other proposed legislation, in some cases, by the War Department.

(C) A provision by which the federal government, at the end of the fifty-year period, has the reserved right of taking over the investment by paying to the company the bare cost of the development, after deduction for depreciation in the general plant, and at the bare cost of the real estate, irrespective of any appreciation in the value of the real estate. And in the bill as heretofore submitted, it would be entirely possible that the large — in fact, overwhelming — proportion of the property and the real estate had not been acquired from the federal government; but, nevertheless, in the expropriation, the federal government would have the privilege of taking over the entire property substantially on the terms named. In fixing the value to be paid the company in such an event, no allowance whatsoever is provided for the absolutely inevitable and essential and necessary intangible expenses connected with the development of the project, and no allowance whatsoever for the going value of the property as the result of fifty years of up-building of the business at the hands of the corporation.

The situation as provided for by this so-called Ferris Bill would surely prevent capital enlisting in the development of any large number of new hydro-electric enterprises. Broadly, capital would sum up the situation as being one where their investment — and in these hydro-electric matters the investments are relatively large sums — would be permanent for only a maximum of fifty years, and that at the end of the fifty years it might be practically confiscated as above set forth. Further, there would be an uncertainty as to the rates allowed to the company from year to year, subject to the determination of the rate-fixing body; and, in addition, the peril previously pointed out from taxation determined by a totally independent body. Another very serious feature of this proposed bill is the entire lack of provision to prevent competition, arising from reckless development of hydro-electric powers beyond the capacity of the given market to absorb or their quite possible development solely for the purpose of forcing their purchase upon the existing corporation.

Broadly, regulation by arbitrary governing bodies, without equal protection against unfair and uncalled-for competition, and without protection against unfair taxation, and without any provision to allow the corporation, under these regulations and conditions, to profit reasonably in prosperous periods, so it may tide over inevitable lean years, together with the right of expropriation on what we consider a totally unfair basis of value, and without consideration for the expense, labor, ingenuity, and industry involved in making the corporation a going concern, appears to be as anomalous, unfair, and altogether hateful as taxation without representation,— which is tyranny — and to the affirmative of this thesis, the forefathers of our country dedicated their lives and their fortunes some one hundred and forty years ago.

I thank you for your attention. [Applause.]

The President: I am sure we have all been much interested in Mr. Byllesby's very valuable paper. We have to thank our Public Utilities Committee for a very interesting report.

Are there any remarks or discussion which you would care to have upon these questions presented?

Mr. A. W. Bullard (E. H. Rollins & Sons, Chicago): I would

like to ask Mr. Byllesby if he thinks the method of taxation in California is a fair one?

Mr. Byllesby: Absolutely; I should probably have qualified my report. That is the one exception where we not only have no kick coming, but we have to be eternally thankful.

Mr. Bullard: I just wanted to know.

Mr. W. M. L. Fiske, (Wm. A. Read & Co., Chicago): What is that basis?

Mr. Byllesby: With the high altitude and a cold, I am a little bit sore in my throat. The basis is a percentage fixed from year to year of your gross receipts, so that you will know what it is going to be. Now, have I, Mr. Chairman, the liberty to speak a few more words? I have not said one word in that address, Gentlemen, which I cannot bear out by annotations a mile high. You take this question of taxation. In the State of Wisconsin, which has probably the best and most fearless public service commission of any of the states, a case has occurred which, probably for reasons which you will recognize when I have finished, is important—one of the utility companies under that very jurisdiction came to them and appealed for a raise in rates. That very able and conscientious commission looked over the situation and they authorized a raise in rates to give that company a fair return. Immediately, the taxing body of the state, the county, and the city raised the rate of taxation to a point which simply annihilated them. Now, what happened was, and I think I have the privilege of stating this here, although it is not generally known, the chairman of the Wisconsin commission sent word to that taxation body, that unless they put the tax back to where it was, they would raise the rate, and they put it back.

Now, gentlemen, I assure you that this is a very, very serious situation. I hold to the proposition that it is just as unfair, just as wrong to steal from the man of property, or a corporation, as it is for the man of property or a corporation to steal from the property.

Now, take the situation of certain of these developments — hydro-electric enterprises. We have two of them, which were built under the provisions of a special act of Congress passed at the time, certain years ago, before this great furore had arisen which authorized us to dam navigable streams. Now, those bills had attached to them, as every government bill that I have ever

seen has, a clause to the general effect that these provisions can be forfeited or dropped, or anything of that sort that the government saw fit. Now, in the days when this government of ours amounted to something in the world, when this country of ours amounted to something in the world there was no one who questioned the fact that meant simply a military or police protection to the United States Government, and we invested our money and we built those properties under that well-understood condition from the then President of the United States down to the remotest representative from some far-away congressional district. Now, today they are saying that away back before this subject ever came up there was a humorous sort of a rider put in there so that when the populistic party, or whoever it might be, wanted to gain some advantage, they could do it by availing themselves of that clause, and shaking away this property from its destroying (?) investment. I think I have taken up enough time. [Applause.]

Mr. Dahl (Electric Bond & Share Co., New York): As I understand it, the report of the Chairman of the Public Utilities Committee was placed on file.

The President: Yes sir.

Mr. Dahl: It occurs to me that it deals with matters of sufficient importance, especially after Mr. Byllesby's address, so that possibly the convention would desire to take some stand, and I therefore move the adoption of the report as submitted by Mr. Oldham.

(The motion was seconded.)

The President: I beg your pardon. That report was adopted and ordered to be printed.

Mr. Dahl: I didn't so understand.

The President: Have we some further comment? If not, gentlemen, it has been our purpose this afternoon to take up the subject of Municipal Bonds, but I find that our time is getting short. I believe there is a resolution to be presented. I recognize Mr. Hoyt, if he is ready.

Mr. Allen G. Hoyt (N. W. Halsey & Co., New York): I would like to have the permission of the convention to introduce a resolution.

"WHEREAS, this convention realizes that the chief reliance of our country against attack by a foreign power must always be a citizenry trained in arms, and

"WHEREAS, recent evidence points to a condition of inadequate military and naval preparedness of the United States, and

"WHEREAS, military or naval training is of the greatest value in the education of our youth for the pursuits of peace,

"THEREFORE, BE IT RESOLVED that the Investment Bankers Association of America strongly urges the adoption of a complete program for national defense, and that we pledge to the national administration our hearty support in the development of this policy, and

"BE IT FURTHER RESOLVED that we urge employers, wherever possible, to give to their employees, in addition to the regular vacation, sufficient time for participation in annual military or naval maneuvers without loss of pay or prejudice of position."

Mr. White (Cleveland Trust Co.): Mr. Chairman, I think Mr. Hoyt's resolution touches upon a subject which is of the utmost importance to every American. It seems to have an indirect bearing on our own safety. After all, protection of American capital and American investment is our chief concern. I would like to second Mr. Hoyt's resolution.

The President: It is moved and seconded, gentlemen. Do I hear any further remarks? If not; all those voting in favor say "Aye"; contrary minded, "No." It is carried.

Gentlemen, I would like to suggest that we hear a report on timber bonds, from Mr. Olcott. It is Mr. Fentress' report, but Mr. Fentress could not be here, so Mr. Olcott will address you.

REPORT OF THE TIMBER BONDS COMMITTEE

In a brief space we desire to lay before you our report, hoping to clarify some things that are now misunderstood in regard to the timber industry in the United States, and timber bonds in particular.

We wish to touch first on the timber and lumber business as an industry, outlining its position and standing; and second, to set forth some thoughts in regard to timber financing and its results.

The timber and lumber business is of greater magnitude than is generally recognized. It normally gives employment to more wage earners than any other manufacturing business in this country. It stands at the forefront in the business activities of many of our states. It has been said that approximately one man in every thirty-six in this country is employed in lumber, timber, and associated industries. The payroll of the business in the United States is figured at close to $370,000,000 per annum, and it is estimated that lumber furnishes the railroads with more cars of freight than any other single industry, and is second only to coal in the actual tonnage produced.

You, of course, know that the lumber business is divided into a great many different woods, growing in various parts of our country, and used for different purposes. Outside of a very few varieties, the trade generally has been passing through one of the severest depressions it has ever known. The causes of this de-

J. HERNDON SMITH, *Treasurer*
Smith, Moore & Co., St. Louis

pression are largely linked with the general business situation, but there are conditions peculiar to the industry alone which we desire to review.

Broadly speaking, for the last fifteen years timber has been rising in value, with the result that many people have been engaged in the business who possessed very little knowledge of its practical workings; many more milling plants have been erected than were needed, except in exceedingly good times, and in the present depressed times over-production has resulted. Men already in the business have feared that they would lose the raw supply of timber tributary to their respective mills, and desiring to give their plants as long lives as possible, they have bought more raw timber supply than they should, with the result of over-expansion of their credit.

The lumber business is one of the few large manufacturing industries carried on by thousands of independent operators, it being estimated that there are over forty-eight thousand sawmills in the United States. With over-production a recognized fact, it has been impossible to secure co-operation in stopping this over-production, because of the immense number of people involved, and the feeling that any agreement to curtail might be unfavorably viewed by the courts. Added to these unfavorable factors, have been the general industrial depression and curtailment, and the greatly decreased purchasing power of the railroads, who are the largest lumber buyers; last but not least the war has to a large extent swept away the lumber export business, forcing the export mills to sell part of their product in this country and upon an unwilling market. The degree to which our export lumber sales have fallen, is shown by the Government's figures on the value of lumber and timber exported in the last four years, ending June 30 in each year, and is as follows:

1912	$61,997,465
1913	73,126,496
1914	66,746,959
1915	28,299,621

Such unfavorable conditions as we have outlined could probably be overcome only through marked curtailment in production or by much improved business conditions. With both these lacking, the pressure of extreme competition has forced the shut down of a large number of lumber manufacturing plants, and this enforced idleness has hurt the weaker companies, and in many cases has resulted in financial embarrassments.

It will be seen, therefore, that a combination of temporary factors, namely, a period of general business depression, the European war, and the railroad situation, now in process of betterment, has been the primary cause of the unfavorable lumber market. Business must eventually improve, the European war end, and the railroad attain satisfactory rates and resume their normal expenditures for renewals and improvements.

These facts once understood dispel the uncertainties and leave us confident in our belief in the future of one of our greatest natural resources. Sure of its merit and basic soundness, we look forward to the steady improvement of conditions in the lumber industry.

The other side of our report has to do with timber bond issues as they have been handled in the past, and particularly to point out some mistakes that have been made which have only increased and aggravated the troubles of the lumberman.

During the past year we have heard much destructive criticism, much that was untrue, much that came from pure ignorance. The sound timber companies and the high class timber securities have been lost sight of in the publicity that has been given to the unsound companies and the speculative and ill-advised financing with which you are familiar. It is regrettable that such financing ever occurs. It has happened before in other investment lines and will probably happen again. It is not banking; it is in reality promotion and results in loans that we all agree should never have been made; loans that have been brought out because they were salable, rather than because they were sound.

Our interest centers aside from these, and more particularly on those issues of merit which apparently should have been successful, but which, from one cause or another, have defaulted in interest or principal requirements. A considerable part of the failures in issues of this character are due to the honest mistakes of bond houses, coupled with the inability of such houses to secure reliable experts to supply their own deficiencies. Lack of knowledge concerning real values and lumber operations have placed sinking funds and excessive serial maturities in mortgages that could only mean ruin to the borrower at the first fall in the market value of his product. Ignorance of how logging is carried on and of the surrounding conditions has resulted in releasing clauses totally inadequate and embarrassing to the borrower. Failure to understand the desirability of permitting timber exchanges with adjacent owners when such exchanges are properly safeguarded, and the omission of sound clauses in mortgages providing for such exchanges, has tied the hands of operators and prevented them from decreasing their logging costs and at the same time increasing the value of their timber holdings.

We cite these shortcomings because we believe that a timber bond issue requires the services of an expert who knows first hand the lumber business in all its ramifications. The making of long-time loans on timber properties has too often been approached from the academic and theoretical side, with little or no knowledge of the practical difficulties that confront the lumberman in the operation of his property. We earnestly hope that this lesson has been learned and that the future will see the avoidance of the mistakes in the past. We feel that the great timber and lumber industry of America has had a long and honorable record; that it has produced much of the wealth that has made for the welfare and prosperity of the nation; that it represents one of our greatest natural resources, and that under every economic law timber values must in the long run continue to increase. We are confident that sound financing, based on standing timber and shaped and handled by men who are experts in the field, will again receive its just dues and stand with the same conservative investment opportunities of America.

Respectfully submitted,

CALVIN FENTRESS, *Chairman*.

The President: If there is no objection this report will be received and ordered printed. I believe our local committee

has a word for us and I would like to call upon Mr. James N. Wright, chairman of that committee.

Mr. James N. Wright (James N. Wright & Co., Denver): There are a good many here who have not made their banquet reservations, quite a number in the room that I notice. It is rather mixing up the plans of the committee. Before you go out this afternoon you will all please put in your banquet reservations. It will help us a great deal. We are arranging the tables tonight after we come back from Lookout Mountain, and those that do not get in this afternoon are likely to be placed where they do not want to be on that night.

Now, this afternoon we have had quite a number of requests with the Committee for guests' accommodations at Estes Park. I imagine this is largely due to a misconception of our plan, possibly, that many delegates have notified people to go on the Estes Park trip. We have no objection, of course, in fact we are very glad if everybody could go that we can take care of; but accommodations are somewhat limited both as to automobiles and at the Park. I should be very glad indeed if any delegates who have put any cards for guests who are not delegates will come to me either this afternoon or whenever they can reach me, so that I can make some arrangement to possibly take care of them at the Park. Whoever goes up there without having seen me or Mr. Martin is likely to find no room.

I hope you understand the reason for this; it is not that we do not want guests to go, but already our accommodations are decidedly limited; and I think that practically every delegate here has signified his intention of going, and we have about as many as we can comfortably take care of, and we don't want anybody to go and be uncomfortable.

Please take care of your banquet tickets before you leave here, if possible. Mr. Martin will be outside all afternoon and all evening, and tonight the reservations will be all made and the tables assigned, so if you do not reach the table where you would like to go, I am afraid it will not be the fault of the local committee.

The President: Tell them about this afternoon, where the automobiles will be.

Mr. James N. Wright (continuing): The automobiles will all be downstairs on the Broadway side, and they will be filled up

by fives or sevens, just as many as the automobiles will hold; it is a short trip, and you will all be comfortable even to the full capacity for the ride. There will be no particular parties selected — you will simply get in the cars — they are ready to be filled; but if you have any parties who would like to go together, I suggest that you go in a crowd.

The President: Gentlemen, I do not think it should be said that the Investment Bankers Association of America should be known as the "late Mr. Smith." I know it is pretty hard to start in the morning, but unfortunately today we have but a short time and we have a good deal of work before us. I am going to ask the reading of two or three reports, and I hope that during that time our membership will come in. If any of you can do anything to reach the gentlemen downstairs to come upstairs, I shall esteem it a great favor.

First, I will ask the Secretary, Mr. Fenton, to read some telegrams and announcements.

The Secretary (reading):

San Diego, Cal., Sept. 20, 1915.

A. B. Leach, President,
Investment Bankers Association,
Brown Palace Hotel, Denver.

I extend to officers and members Investment Bankers Association of America greeting and a personal expression of appreciation at their convening in Denver. Regret I am unable to be present and participate. Trust the deliberations of the Convention and opportunity offered to members to more intimately know western men and activities they represent will be of immense mutual advantage.

(Signed) Theodore G. Smith,
President, Colorado Bankers Association.

The President: I have been called upon this morning by a representative of the Moffat Road who tells me that they have a very wonderful trip, leaving at nine o'clock every morning, over what he says is one of the greatest scenic routes in this vicinity. He would appreciate it very much if as many members as could would arrange before returning to make this trip. I have tried it and it is worth while.

We have some telegrams in regard to the next convention which we will be glad to read to this assembly, then referring them to the Board of Governors for action at a later date.

The Secretary: Invitation from the Chicago Association of

Commerce; telegram from the Cincinnati Chamber of Commerce; letter from the Cincinnati Hotel Men's Association; letter from the Merchants Manufacturing Association of Baltimore; letter from the Bureau of Conventions of the City of Baltimore; letters and telegrams from various officials of St. Louis, Missouri.

The President: The Secretary will acknowledge these courteous invitations, and advise that they are referred to the Board of Governors.

THE CHICAGO ASSOCIATION OF COMMERCE

CHICAGO, August 26, 1915.

Mr. F. R. Fenton,

Secretary Investment Bankers Association of America,

Chicago.

Dear Sir: I am enclosing herewith the invitation of The Chicago Association of Commerce, inviting the Investment Bankers Association of America to hold their next convention in Chicago. Will you please present this invitation to your members for their consideration, and will you give to it whatever moral support you can.

You appreciate Chicago's place as a convention city, with her central location and transportation facilities, stop-over privileges, etc., and I hope that we may have your hearty co-operation in this Chicago movement.

When your organization has accepted Chicago's invitation, I want you to feel perfectly at liberty to call upon this Department for assistance in arranging details incident to the holding of your convention.

Thanking you in advance for your part in this matter, I am,

Very truly yours,

CHICAGO ASSOCIATION OF COMMERCE.

By GEO. M. SPANGLER, JR.,

Manager, Bureau of Conventions.

[TELEGRAM]

CINCINNATI, OHIO, Sept. 17, 1915.

A. B. Leach,

Care The Investment Bankers Association, Special C. B. & Q Railroad,

Burlington, Iowa.

At suggestion Reamy Field and Harry Weil we are wiring to solicit support for Cincinnati as Nineteen Sixteen meeting place Investment Bankers Association of America. Cincinnati delegation will work hard at Denver to secure meeting. We want you to know they have whole hearted support of the business men of this City. Promise you successful meeting here in every way. Our golf links unexcelled.

CINCINNATI CHAMBER OF COMMERCE.

PALACE HOTEL

CINCINNATI, Sept. 16, 1915.

To the Officers and Members of the

Investment Bankers Association of America,

In convention assembled at Denver, Colorado.

Gentlemen: On behalf of the Cincinnati Hotel Men's Association we extend to your organization our most sincere and urgent invitation to hold your next meeting in Cincinnati, and join with the Chamber of Commerce and other organizations in assuring you of a pleasant and successful meeting.

We guarantee that if the meeting is held in Cincinnati there will be no increase in the regular rates of the hotels in this city; on the contrary, if the members will advise us in time we will reserve our most desirable rooms for them, affording them our best accommodations without additional cost. A schedule of the rates of the leading hotels, all of which are identified with the Cincinnati Hotel Mens' Association, is found in the folder attached to this letter.

Trusting that you will accept the invitation extended you by the commercial and civic bodies of our city, we remain,

Very truly yours,

THE CINCINNATI HOTEL MEN'S ASSOCIATION.

E. W. LYNDY, *President.*

CINCINNATI CHAMBER OF COMMERCE AND MERCHANTS EXCHANGE

CINCINNATI, Ohio, Sept. 16, 1915.

Mr. F. R. Fenton, Secy.,

Investment Bankers Assn. of America,

Denver, Colorado.

Dear Sir: At the request of Mr. Reamy E. Field and Mr. Harry E. Weil of this city, I am handing you herewith formal invitation from the Cincinnati Chamber of Commerce, Hon. Frederick S. Spiegel, Mayor of Cincinnati, and the President of the Cincinnati Hotel Men's Association to the Investment Bankers Association of America to hold their 1916 meeting in Cincinnati.

Will you please see that our invitation is placed before your convention and before your Board of Governors when they meet to settle this matter.

I am today shipping to the Denver Chamber of Commerce 400 copies of the enclosed booklet. These will be placed on the chairs in your convention hall at Denver, and we would like to place the balance in your registration headquarters where they will be available at all times to the members. We trust there will be no objection to having the booklets placed in your office.

Very truly yours,

THOMAS QUINLAN, *Acting Manager.*

CINCINNATI CHAMBER OF COMMERCE AND MERCHANTS' EXCHANGE

CINCINNATI, Ohio, Sept. 16, 1915.

To the Officers and Members of the
Investment Bankers Association of America,
In convention assembled at Denver, Colorado.

Gentlemen: On behalf of the Cincinnati Chamber of Commerce, one of the greatest commercial bodies of the United States, representing our combined business interests, the Cincinnati Hotel Men's Association, our municipal authorities and our other civic and commercial organizations, and our people generally, we urge you to hold your 1916 convention in the Queen City.

Our Convention and Publicity Department, backed by a large fund, stands ready to be of real assistance to the Cincinnati entertainment committee.

Cincinnati is a convention city of National — even International — reputation. Our railroad facilities, splendid hotels, many amusements, charming beauty spots and famous hospitality, combine to guarantee you a successful, pleasant and profitable convention here.

Yours for a successful convention,
W. C. CULKINS, *Executive Secretary*.

CITY OF CINCINNATI

September 16, 1915.

To the Officers and Members of the
Investment Bankers Association of America,
In convention assembled at Denver, Colorado.

Gentlemen: Permit me on behalf of the citizens and the municipal authorities of Cincinnati to join the Cincinnati Chamber of Commerce in extending you a most cordial invitation to hold your next meeting in our city.

We pledge ourselves to make good all the offers of hospitality and courtesy which have been bespoken for our city by the Cincinnati Chamber of Commerce, which represents our commercial and social interests.

We will open our gates to you, and will spare no endeavor to make your stay with us both pleasant and profitable if you decide to act favorably upon this invitation.

Cordially yours,
FREDERICK SPIEGEL, *Mayor of Cincinnati*.

MERCHANTS AND MANUFACTURERS ASSOCIATION OF BALTIMORE

BALTIMORE, June 30, 1915.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association of America,
Chicago, Ill.

Dear Sir: We take pleasure in extending to your organization a most cordial invitation to hold your 1916 convention in the City of Baltimore.

Baltimore is THE CONVENTION CITY, and many of the largest and most

important gatherings have been held here in the last year or two. His Excellency Woodrow Wilson was nominated in Baltimore. The Associated Advertising Clubs of the World and the National Canners Association recently held their most successful conventions here.

In the Fifth Regiment Armory we have what is conceded to be the finest convention hall in the United States.

Baltimore is the home of the John Hopkins University, Walter's Art Gallery, Peabody Institute, Goucher College, and many other institutions of national repute. In Druid Hill Park, Baltimore has the finest natural park in the world and the city is alive with historic features, which are closely associated with the history of our country.

Baltimore is not only the metropolis of the South, but stands first in the manufacture of cotton duck, straw hats, men's clothing, fertilizers, copper, tin and sheet iron products.

We have ample hotel accommodations. Baltimore has always been noted as the gastronomic center of the universe, and its hotels are celebrated for their famous Maryland cooking.

We sincerely trust that your organization will act favorably in the matter.

Very truly yours,

FRANK N. HORN, *Acting President.*

Attest. ROBERT J. BEACHAM, *Secretary.*

CITY OF BALTIMORE, MARYLAND

MUNICIPAL DEPARTMENTS
BUREAU OF CONVENTIONS

BALTIMORE, June 25, 1915.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association of America,
111 W. Monroe St., Chicago, Ill.

My dear Sir: The Convention Bureau of Baltimore desires to extend to you a hearty invitation to hold the next annual meeting of your organization in this city. We feel that the advantages we have to offer justify us in asking your consideration of Baltimore as your next place of meeting.

Baltimore is very desirably located geographically, and is easily accessible by rail and water. Our facilities for handling conventions of all kinds are the equal of any city in the United States. We have splendid hotels of ample accommodation. Every possible line of entertainment is at the command of those who are fortunate enough to visit us. Our public parks are unsurpassed. We have fine boulevards and many miles of smooth streets with modern paving. Baltimore is noted for its markets, wherein abound all the delicacies of the seasons, such as the most delicious vegetables, terrapin, oysters, crabs, fish and wild game. Baltimore is sufficiently close to Annapolis, Washington, Gettysburg and other places of historical interest as to make a most comfortable and pleasurable trip to these noted places.

We shall be very glad indeed to entertain your convention, realizing the high character and responsibility of the men who constitute your organization, knowing

that we have everything to offer that any other city in the United States has to offer, and many things that cannot be duplicated anywhere in the country. We also feel that our meeting together here will be mutually beneficial.

In making up your minds where next to meet, allow me to urge your serious and, I hope, favorable consideration of Baltimore.

Very truly yours,

ROBERT E. LEE, *Director*.

MAYOR'S OFFICE

BALTIMORE, Md., June 25, 1915.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association of America,
111 W. Monroe St., Chicago, Ill.

My dear Sir: On behalf of our municipality I am extending an invitation to your association to hold your next annual convention in the City of Baltimore.

Perhaps it is unnecessary for me to enlarge on the advantages which Baltimore has as a Convention City. After having taken care of the National Democratic Convention, the Canned Goods Convention, the Elks, the Shriners, the Saengerfest, the Associated Advertising Clubs of the World, and many others, it may not be necessary to amplify our facilities.

Our situation on the Atlantic Seaboard at the head of the Chesapeake Bay, together with our great railroad terminals and steamship lines, our great educational institutions, modern and progressive municipal activities, will render the stay in Baltimore of your members both delightful and instructive.

You will appreciate then, that your convention can be held here to great advantage, and at the same time would prove a source of pleasure to your delegates and their families, and also be a great pleasure to us.

Yours very truly,

JAMES H. PRESTON, *Mayor*.

[TELEGRAM]

ST. LOUIS, Mo., Sept. 20, 1915.

A. B. Leach, President,
Investment Bankers Association of America,
Brown Palace Hotel, Denver, Colorado.

In behalf of the City of St. Louis I have the honor to invite the Investment Bankers Association of America to meet here in Nineteen Sixteen. St. Louis is passing through a period now of great and progressive development, the outward signs of which will be most interesting for men like your delegates, particularly the Municipal River Terminals which will be finished by that time, and our magnificent system of city boulevards and streets; it will give me great pleasure, if the convention is held here, to place at its service officers of the city government to show the delegates the important improvements going on in the city.

HENRY W. KEIL, *Mayor*.

ST. LOUIS CONVENTION AND PUBLICITY BUREAU

FOURTH CITY

ST. LOUIS, August 15, 1915.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association of America,
Chicago, Ill.

My dear Sir: I am enclosing herewith the invitation of The St. Louis Convention and Publicity Bureau, inviting the Investment Bankers Association of America to hold its next convention in St. Louis. Will you please present this invitation to your members for their consideration, and will you give to it whatever moral support you can?

You appreciate St. Louis' place as a Convention City, with her central location and transportation facilities, stop-over privileges, etc.; and I hope that we may have your hearty co-operation in this St. Louis Movement.

When your organization has accepted St. Louis' invitation, I want you to feel at liberty to call upon this Bureau for assistance in arranging details incident to the holding of your convention.

I can furnish you a convention hall to hold your regular meetings in, committee rooms, and other accommodations in any of the St. Louis Hotels, provided you will make your headquarters at said hotel.

Thanking you in advance for your part in the matter, I am,

Very truly yours,

JUSTIN A. RUNYAN, *Secretary-Manager.*

ST. LOUIS CONVENTION AND PUBLICITY BUREAU

FOURTH CITY

ST. LOUIS, August 15, 1915.

Mr. F. R. Fenton, Secretary,
Investment Bankers Association of America,
Chicago, Ill.

Dear Sir: The St. Louis Convention and Publicity Bureau appreciates the pleasure and profit of a personal acquaintance with the "men of affairs of our country," and in order that a personal acquaintance may be consummated with you, we extend a cordial invitation to you and the members of the Investment Bankers Association of America to hold your next convention in St. Louis, Mo., with the assurance on our part that everything within reason will be furnished you.

This invitation is further reinforced by invitations herewith enclosed from the

Mayor of the City of St. Louis,
Associated Retailers of St. Louis, and
Merchants Exchange of St. Louis.

St. Louis is the Central Convention City of the United States, and can be reached without change of cars from all of the leading cities of the country.

We have a special division which will assist the managers of your convention in making all advanced arrangements, such as securing hotel accommodations

meeting halls, entertainment of all kinds, local speakers if needed, and general publicity.

In inviting conventions to meet here we desire to relieve those who will have charge of the arrangements of their conventions of as much worry as possible.

May we have the pleasure of hearing from you?

Very truly yours,

ST. LOUIS CONVENTION AND PUBLICITY BUREAU,

JUSTIN A. RUNYAN, *Secretary-Manager.*

MAYOR'S OFFICE

SAINT LOUIS

ST. LOUIS, MO., August 15, 1915.

Investment Bankers Association of America,

Chicago, Ill.

Gentlemen: On behalf of the people of St. Louis it gives me pleasure to extend to your organization a cordial invitation to hold your next convention in this city.

St. Louis is the Central Convention City "where men do things" and hospitality is our slogan. Because of geographical location and because twenty-four railroads center here St. Louis conventions produce the maximum of attendance with the minimum average cost to delegates. This means successful meetings.

St. Louis is the fourth city in the United States in population, and as a manufacturing city is the largest west of the Mississippi River in its total of "output" and diversity of lines of goods manufactured.

St. Louis is noted for hospitality and courtesies extended to visitors and delegates.

St. Louis is noted as the "City of Homes," which not only include many of the finest homes in the country but it also includes miles and miles of improved, parked and paved streets with the homes of the multitude dotting both sides.

We confidently believe that it would be beneficial to your organization in more ways than one to hold your convention here as your delegates would be enabled to visit and inspect the splendid resident sections of our city and also our magnificent, up-to-date, and thoroughly equipped school buildings. These are always matters of interest to visitors and often an inspiration also.

Hoping you will decide to hold your next convention in St. Louis, I beg to be,

Very sincerely yours,

HENRY W. KEIL, *Mayor.*

THE ASSOCIATED RETAILERS OF ST. LOUIS

ST. LOUIS, August 3, 1915.

Investment Bankers Association of America,

Chicago, Ill.

Gentlemen: We, the Associated Retailers of St. Louis, composed of the 60 leading retail stores, desire collectively and individually to join in the invitation

extended you by the Convention Bureau to make this city the place of your next gathering.

We feel sure that St. Louis is able to furnish all necessary facilities and attractions for the success of your convention and the entertainment of your delegates.

The proverbial hospitality of our city awaits you.

Very truly yours,
THE ASSOCIATED RETAILERS OF ST. LOUIS,
K. F. NIEMOELLER, *Manager*.

MERCHANTS EXCHANGE OF ST. LOUIS

ST. LOUIS, August 15, 1915.

Investment Bankers Association of America,
Chicago, Ill.

Gentlemen: The Merchants Exchange of St. Louis takes pleasure in joining with the St. Louis Convention and Publicity Bureau in extending to you a cordial invitation to you to hold your next convention in this city.

Very truly yours,

ROGER P. ANNAN, JR., *President*.

EUGENE SMITH, *Secretary*.

The President: In the absence of Mr. Hayden, who is unavoidably detained home on account of sickness, I am going to ask Mr. W. H. Lyon, of New York, to read the report of that Committee. Mr. Lyon.

REPORT OF THE TAXATION COMMITTEE

Mention should be made this year of some of the effects of the work last year of the Committee. Members of the Association will remember that last year the Committee, feeling that it wanted to base its work on some careful study of its problem, presented an extended report which appeared in the form of a book entitled "Principles of Taxation." Besides such assistance as this work has been in arranging our own ideas on the subject, it has met with a good deal of favor as a presentation of the aspects of taxation in which we are especially interested. It has come to be used as a text in several colleges. But most important for our purposes, it has helped make generally known our interest in taxation matters, so that in some instances people engaged in framing tax measures have sought assistance from us. It has called attention to the tax work of the Association and won a good deal of favorable comment in the press.

During the year counsel represented the Taxation Committee at a conference of New England Tax Commissioners held at Augusta, Maine. Through ar-

rangements made by the Chairman of the Committee its counsel spoke to the Cleveland Chamber of Commerce, and through the arrangement of Mr. Harry E. Weil spoke to the Business Men's Club of Cincinnati on taxation matters.

The long legislative agitation in New York leading to the repeal of the Secured Debts Tax Law and the substitution of a temporary secured debts tax law, the appointment of a special legislative tax commission, and the Constitutional Convention has made New York State take a good deal of the attention of the Committee this year. Tax legislation and constitutional amendment proposals have been up in a good many other states, especially in Maine, New Hampshire, Massachusetts, Connecticut, Ohio, and Illinois, and have had the attention of the Committee. Since these matters have already been reported in the Bulletin we will not go into them now.

Counsel to the Committee has served as a member of the Situs Committee of the National Tax Association and worked with that committee in the endeavor to reach a solution of some of the perplexing problems of situs which have led in many instances to an unjust double taxation of intangibles. This report was presented to the National Tax Association at its annual meeting, which was held in August in San Francisco. The Committee has also had prepared and printed several articles on tax matters.

Work of the Committee has included a constant correspondence with tax commissioners and other tax officers.

Respectfully submitted,

WARREN S. HAYDEN, *Chairman*.

Mr. W. H. Lyon: I want to call the attention of the delegates especially to one matter. This is not a poker hand that I hold, but simply several pamphlets which were prepared by the Taxation Committee for use in those states in which the general property tax still exists. These pamphlets are entitled "An Appeal for Fair Play. "The Tyranny of Taxes Ignorantly Imposed." "The General Property Tax which Taxes Securities and All Other Property at the Same Rate is Undemocratic, and Taxes the Helpless, not the Rich." The third pamphlet, "Get More Revenue from Securities at a Lower Rate and so Really Lesson the Burden on Realty and Keep Security Owners in the State." And the fourth pamphlet, "Condemned for over Twenty Years. The General Property Tax, which Taxes Securities and All Other Property at the Same Rate." That does not necessarily mean the equivalent of a life sentence. It was the thought of the Taxation Committee that in those states in which the tax situation is especially acute, particularly in such states as Massachusetts, Ohio, Illinois, and perhaps Missouri, that some of our members might be engaging in some special tax work in their

own states, and might like to take advantage of these little pamphlets, which the Committee has had prepared for use, in any tax campaign that might be on in their particular state; and copies of these pamphlets are on the table in the Secretary's office, and any of you who are interested are invited to help yourself.

I understand that Mr. Hodges told Mr. Hayden that he would tell us something about the tax situation in New York. Mr. Harry E. Weil will say a word about the tax situation in Ohio, and after that I believe there is to be some discussion. Mr. Ross will also speak. [Applause.]

The President: I am very sorry, Gentlemen, that we have not a larger attendance this morning to listen to this tax discussion. Mr. Byllesby yesterday brought out one feature of the tax problem which interests every member of this association, in the fact that the taxing power which made the tax levies on the corporate interests, is entirely divorced from the rate making power. Beyond this, there is no problem today before the actual investor who holds bonds or stocks than that of taxation. What can he hold that will not be subject to an impossible, onerous, unreasonable tax? In every state this problem differs, and for that reason this discussion should be especially interesting to us because here we can hear from the different sections of the country as to what direction their problem takes locally. Mr. Hodges, are you ready to talk to us now?

Mr. Hodges: Mr. President, and Members: I must frankly say that this call is entirely a surprise to me. I thought I would be a listener here only, but if a word or two in regard to the New York situation will be of any interest, I will try as briefly as I can to give it.

We have had for years in New York the General Property Tax which has worked out in such a way that real estate has been taxed on the average, close to its full market value.

Assessements on personal property, tangible and intangible, have borne a very small proportion to the assessments on real property. Personal property assessments have been made largely at random, and in many cases assessments in considerable amounts have been on persons who have no property at all. Frequently these people have not bothered to go to the Assessor's Office to swear off the assessment, with the result that the assess-

GEORGE B. CALDWELL
Ex-President, 1912–14
New York City

A. B. LEACH, *Ex-President*, 1914–15
A. B. Leach & Co., New York City

ments were finally confirmed. Later, revenue bonds, issued in anticipation of the collection of the taxes were put out by the city, and then, after some years when it has been found impossible to gather in these uncollectable assessments, the city has been obliged to issue long time bonds to fund the special assessments.

It has been an unfortunate situation. In 1906, an abandonment, in a measure, of the old principle was made, when the mortgage recording tax was placed on the statute books, which provided for a payment of one-half of one per cent to be paid on the recording of any real estate mortgage which had formerly been subject to taxation at the general property rate; and it has been understood that this half per cent tax made a perpetual exemption.

In 1911 a "secured debt" law was passed which was practically the mortgage recording tax law applied to mortgage bonds on real estate outside of the state and to debentures and notes, etc. The results in the form of revenue from the secured debt law are not entirely satisfactory; and by reason of the large amount of income now needed, on account of many new bond issues, and various other new enterprises, there is now being agitated some way to increase the state's receipts materially, beyond what the bond and the secured debt tax law has given them. We have had during our recent legislative session several strenuous contests which finally resulted in the defeat of the attempt to pass a law for the mandatory listing of all personal securities and intangible personal property, which it was planned to tax at a two-mill rate and a compromise reached by which, on the payment of three-quarters of one per cent on par value, a five-year exemption was given to "secured debts"; and as a further part of that compromise a commission was appointed to report very fully on the whole tax situation at the next session of the legislature.

This commission is working in a very practical way, I think, and is conferring with various bodies of bankers, merchants and manufacturers, and others, with the idea of getting *their* ideas, so that when the bill is introduced, it will have the support it needs, and not as is the usual case, have very little support, except from the people proposing it. What the success of the commission will be, of course, no one can tell.

I think it may be interesting to the members to know that

the sentiment at the present time is tending, not only on the part of some of the members of the commission, but also of those who have been in consultation with the commission in this work, strongly away from any mandatory listing of securities, and is drifting toward some form of the State Income Tax, based to some extent on the provisions of our present Federal Income Tax.

It will be a very difficult thing to work out, because it is comparatively easy for citizens of New York City, where most of the personal property is held, to move across the Hudson, to New Jersey or up the Long Island Sound only twenty-eight miles to Connecticut. That possibility applies equally to any form of mandatory listing of securities. I presume the situation in New York is more acute than in any other state; it is so far as I know. I have been a member of the Taxation Committee for only thirty days, and so can tell you very little of the work of the Committee for the past year. I am very sorry, Mr. President, that I am not able to say more about it. [Applause.]

The President: As giving another viewpoint from another section, I would ask Mr. Ross of the Second Ward Savings Bank in Milwaukee, to speak to us on the Wisconsin Income Tax situation.

Mr. Ross: I am very interested in Mr. Hodges' remark that sentiment in New York seems to be drifting towards a state income tax. We have had a state income tax in Wisconsin for three years. The law was passed by the legislature of 1911 and the tax has been assessed from 1912 to date.

The results of its operation must be considered from a number of viewpoints, but from our own rather selfish viewpoint, as bond dealers, the law has been a great success in that it has made possible complete honesty on the part of bond holders in regard to their returns to the assessor. The law is very fair in one respect, that it allows no exemptions whatever. The income on Wisconsin municipal bonds and even the income on government bonds, although the latter might be a disputed point, are not exempt from the operations of the Wisconsin Income Tax. The law has therefore operated to remove all tax considerations from the sale of securities and allow investors to decide upon their investments without regard to taxation, which, as we all know, is in many states a large factor in the selection of investments.

The law is possibly a little fairer than the Federal Income Tax in that the amount of income exempted is small, only eight hundred dollars for each individual as compared with three thousand dollars exemption in the Federal Income Tax. Four hundred dollars additional exemption is allowed to husband and wife and two hundred dollars additional for each child — evidently an encouragement to growth of population.

The effect of this tax on the corporations of Wisconsin has not been so satisfactory, however. There seems to be no doubt that the law has proven more effective in securing a larger payment of taxes by corporations than was the case under the old forms of taxation; and the result is that many Wisconsin corporations are complaining bitterly over the heaviness of their taxation as compared with that paid by similar corporations in other states. This phase of the income tax is one which must have careful consideration, as it is, of course, unwise for any state to burden its manufacturers too heavily as compared with their competitors in other states. It has even been claimed that the existence of this tax law has prevented manufacturers from coming to Wisconsin.

Probably the leading authority on the operation of state income taxation is Dr. Thomas S. Adams, a member of the Wisconsin Tax Commission for many years. Dr. Adams has recently accepted a professorship at Cornell, so that he is withdrawing from active tax work, but his experience has been such as to give his views particular value. I wrote Dr. Adams a few days ago, asking certain specific questions regarding the results of the Wisconsin Income Tax. The questions were as to the amount of securities returned for taxation under the operation of the old general property tax as compared with the amount returned under the income tax law; also whether in his opinion the income tax law in Wisconsin had made it commercially possible for holders of securities to be honest in their taxation returns, and to what extent collection at the source would increase the efficiency of the administration of the Wisconsin Income Tax Law. I should state here that there is no effort of collection at the source under the present Wisconsin law. In his answer to these questions, Dr. Adams states:

"Securities, or as we call them, moneys and credits, were assessed in the amount of $25,791,947 in 1911, and to an amount

of $22,349,805 in 1910. The map printed on page 93 of the Seventh Biennial Report of the Wisconsin Tax Commission refers to the assessment in 1911. The year 1910 was selected merely because we had population data for that year. As shown on page 94 the income tax yielded in cash between two and three times as much as the entire personal property exempted by the income tax law, and moneys and credits of course constituted only part of the property exempted. We do not know what the amount of income from securities is under the income tax law. It costs a considerable amount to make statistical investigation and we have never felt that we could spend the sum necessary to ascertain this fact.

"I think most decidedly that the income tax has made it commercially possible for holders of securities to be honest in their tax returns. The highest rate is six per cent. On a five per cent security this amounts to a property tax rate of three mills. This would be regarded as a very low rate, and one which the wealthy members of the community ought not in equity to evade.

"With respect to collection at source I send you the report of a committee on the federal income tax which states briefly and in general, the reasons why I do not believe in a great extension of the collection at source idea. It results in outside agents, who ought not to be called upon to perform the work, being burdened with the collection of the tax."

The report to which Dr. Adams refers is that of the Committee of the National Tax Association upon the Federal Income Tax. This report under date of August 15, 1915, is now ready for distribution, and to all of you gentlemen who are interested in the subject of income tax, I would recommend a careful reading of this report. It is an exhaustive study of the whole subject and it goes particularly into the advisability of collection at the source, which is the provision that has caused so much annoyance to the holders of bonds in its requirements of certificates with the coupons. The subject of the operation of the Wisconsin Income Tax is covered thoroughly in the Seventh Biennial Report of the Wisconsin Tax Commission, issued in 1914. That report also is available for the use of members of this Association and will be sent to anyone upon request, by the Wisconsin Tax Commission, Madison, Wisconsin. The booklet is well worthy of your careful study.

In Wisconsin we are inclined to feel that we have solved in a fairly satisfactory manner the problem of taxation of intangibles. Without any claim that it has chased down the last dollar of income, the State has nevertheless obtained a very satisfactory income from the owners of personal property by exempting the property and taxing the income. We have undoubtedly increased the honesty of tax returns and we have created throughout the State a sentiment strongly in favor of a man paying his taxes. This sentiment is based, of course, on the fact that it is possible for him to pay his taxes and still make a fair return upon his investments. [Applause.]

President: Does any one else care to say a word in regard to taxation?

Mr. Moore (Barclay, Moore & Company, Philadelphia): I would like to ask Mr. Ross what list is issued, or how the lists are prepared of those who are supposed to pay personal taxes and what penalty is imposed for failure to make returns.

Mr. Ross: The income tax returns are made by the individual tax payer precisely as other tax returns are made. The income tax is administered by a state commission directly through assessors named by the commission for each community. The members of the Tax Commission are appointed for fairly long terms and the assessors who serve under this Commission, also have comparatively long appointments. It is the duty of these assessors to learn what citizens of their districts are probably in a position to pay the income tax, and to see that the blanks upon which the returns should be made, are furnished to such citizens. The penalty for failure to make a return is an increase in the taxes. I know of no special premium to assessors for discovering tax-dodgers. The endeavor of the law has been not merely to make it fair but to avoid inquisitorial features. An effort has been made to put the law on a basis where the decency of the average man would lead him to pay his taxes, and to avoid the construction of such an elaborate and costly system of collection as is required by the Federal Income Tax.

The President: Have we anything further to say on this question?

Mr. H. E. Weil (Weil, Roth & Co., Cincinnati): I did not hear all of Mr. Ross' report, but I would like to ask him whether

the Wisconsin commission in any way covers the question of taxation, or has made a ruling on bonds owned by dealers. That is the question that we are facing in our own community.

Mr. Ross: Nobody is exempt. Everyone is taxed above the stipulated exemption, whether he is a dealer or anyone else.

Mr. Weil: Pardon me, Mr. Ross, the question I would like to get at particularly is, take a dealer who lists, we will say, two million dollars worth of bonds, is he to return the entire two million for taxation?

Mr. Ross: The dealer lists his income, not his securities.

The President: Am I to understand, Mr. Ross, that municipal bonds in Wisconsin are free from this income tax?

Mr. Ross: They are not. Nothing is free from the Wisconsin Income Tax, even the income on government bonds.

The President: Have we anything further on this question of taxation?

Mr. Hodges: If any of our members are engaged in any work in their own cities and states on this question of taxation, and are desirous of obtaining literature and ideas on the subject, I am sure that a subscription to the National Tax Association, at 15 Dey Street, New York, will bring them a great deal of literature, some of which will be very sound, and some may be open to question; but, at any rate, there is a great deal of food for thought, and a great deal that is historical, and if anyone is actively studying this work, I think it is well worth while to pay five dollars for an annual subscription.

The President: May I make one further suggestion? I would like to ask, if I may, that Mr. Ross would write a note of memorandum, to be published in the Bulletin, in which he would give reference to these publications on this matter, which is available from Wisconsin, as to this Wisconsin Income Tax, so that we may send and get them — anyone who is interested. This income tax is a burning question in a good many states. Wisconsin is actually trying it as a state measure, and I think a good many of the members will be glad to know just where to get that information, so they might send for it, and have it available to read. Mr. Ross, will you be good enough to do that? I am sure it will be appreciated.

Mr. Ross: I will do that.

The President: Have we anything further to say on Taxation? If not, I am going to ask Mr. Edminson, of San Francisco, to read a report of the Special Committee on Business Practice, prepared by Warren S. Hayden, of Cleveland, who is not here. Mr. Edminson.

Mr. Edminson (Wm. R. Staats Co., San Francisco,) (reading):

REPORT OF THE COMMITTEE ON BUSINESS PRACTICE

The records of the convention proceedings which resulted in the appointment of the committee making this report do not show any clear instruction to the committee. The convention intended to do something, and the intent as well as the committee can collect it is that a committee of seven appointed by the President to report to the Board of Governors upon the general subject of Business Practice.

President Leach appointed the following committee:

W. S. Hayden,	Hayden, Miller & Co.,	Cleveland
J. W. Edminson,	Wm. R. Staats Co.,	San Francisco
H. B. Judson,	Northern Trust Co.,	Chicago
L. B. Franklin,	Guaranty Trust Co.,	New York City
E. P. Sweesy,	Harris, Forbes & Co.,	New York City
Richard Norton,	Drexel & Co.,	Philadelphia
W. H. Seavey,	E. H. Rollins & Sons,	Boston.

The committee has considered:

1. The policy of the adoption by the Association of a code of business practice.

2. The policy of enforcing such a code on members through penalties for breach.

3. The policy of recommending such a code to members merely as an aid in deciding for themselves questions arising in the conduct of their business.

In the opinion of the committee the Association requires no general code except that of custom and law recognized by well-disposed people of every calling. Moreover, there can be no great practical value in a comprehensive code prepared at one time without reference to actual cases and attempting to deal with the technicalities of business practice. The principles which should control require no restatement and the proper application of these principles in a given case is best shown by the results in previous comparable cases. The committee, therefore, is adverse to any attempt at this time to draft a formal code of any character, but recommends:

1. That a standing committee of seven on business practice be appointed by the Board of Governors and its personnel known only to that board.

2. That upon the appointment of such a committee, members be invited to submit to the President in writing actual cases which they deem important for reference by him to the committee for their opinion or opinions.

3. That in any case deemed by the President of sufficient general interest a summary with opinion or opinions be published in the Bulletin.

4. That when precedents thus developed have become numerous they be classified by subjects and published in brief form for the convenient reference of members.

5. That the Association forbear to add at this time to its disciplinary functions.

Respectfully submitted,

WARREN S. HAYDEN, *Chairman.*

The President: Gentlemen, what is your pleasure in regard to this report? If there is no amendment or suggestion, it will be ordered, printed and referred to the Board of Governors for action in the incoming administration.

Mr. Mosser (Bolger, Mosser, Willaman, Chicago): Mr. Chairman, don't you think we should have an expression of opinion on that report right here? I think the Board of Governors would like to have it. I move the adoption of the report. In connection with the report of the Municipal Bond Committee on the question of ethical relations between bond dealers, I think that subject is going to be touched on and a similar suggestion is going to be made by that committee. I think it would be a pretty good idea to have a committee of that kind. I think it would be a very good idea to have their names unknown.

The President: Would it be your suggestion that this question come up at the time of this Municipal Bond Committee discussion or shall we take it up now?

Mr. Mosser: It doesn't make any particular difference.

The President: I would be very glad to hear from anyone who has a word on the subject.

Mr. Mosser: I move that the report be received and action deferred until after the action on the Municipal Bond Committee's report.

The President: It is so ordered. As a part of this report Mr. W. H. Lyon, of New York, has prepared a paper on joint accounts. I would be very glad to hear from Mr. Lyon.

Mr. Lyon: I hope that no one of the delegates will get the impression that anyone is trying to force down his throat any particular form or forms of joint account. This pamphlet, which has been prepared on joint accounts with some statement of certain consideration of law on joint accounts, is intended simply to

present something that the members may use if they wish; that is to say, if there are any people who want to use the questions of joint account that are presented in this pamphlet, these persons may take advantage and use them. I do not think the pamphlet has been distributed to the entire membership. Some of you, I know, have read it and have already made suggestions to me. The pamphlet, I may say, contains about all that I know on the subject of joint accounts, and I cannot add anything to what is in the pamphlet, but if the matter is to be up for discussion, I shall be a most respectful listener, in the hope that possibly at some future time a more complete statement may be presented to the Association. I will read just two or three paragraphs of Mr. Chamberlain's, in addition to the pamphlet, which will serve fully its purpose and scope.

"Disagreements arise sometimes because the conditions of the account are not stated with sufficient fullness, and sometimes because the parties do not have a common understanding of the terms used. It is believed that by looking through these forms parties entering into an account may check up and determine that all essential matters have been taken care of. The forms are intended to present some clear definitions of terms. They need not be used in formal documents. A simple exchange of letters is sufficient to express the account agreement. If the letters say that the terms are used as defined in these forms, the definitions which the forms present will govern as completely as if they were given at length.

"The terminology presented in the forms varies somewhat from those perhaps most commonly used to state a joint account. At the time of writing, it is felt that this is an advantage as drawing attention to the fact that, if they appear in the statement of an account, they are used with reference to the definitions in these forms.

"To show how the forms may be used in writing letters to state a joint account agreement an exchange of letters is presented which would form an ordinary joint account undivided as to liability but divided as to carrying. This will show how the forms presented may be used in writing letters confirming account agreements that include any of the variations provided for.

"At first glance investment bankers may object that the forms

themselves are unnecessarily lengthy. Though the frequency with which joint accounts are entered into makes them seem rather ordinary matters, they are really complex transactions, and when expressed with sufficient fullness to make them clear, and really state the agreement in sufficient detail to avoid disputes, the writing must cover considerable paper. Many matters must be settled in the conduct of an account. Since the forms here presented, cover with their alternative clauses, a possible rather wide variety of kinds of account they appear much longer than they really are.

"Two agreements are presented — one covering the formation of the account, the other covering the rules for conducting the account after it is formed. A particular kind of account may be agreed upon by going through the forms and selecting those clauses which express the desires of the parties. A further statement of the manner of using the forms with some discussion of the law of joint account is added."

That is all I have to say in connection with this matter. If the matter is open for discussion, I may learn something further.

The President: Shall we have any further discussion? Has anyone a word to say on this discussion of joint accounts? It is a matter that is being published, so we shall have the benefit of the committee's work.

Mr. Mosser: Mr. President, there is another question that also comes up under the Municipal Bond Committee's report: The question of joint accounts.

The President: I think, perhaps, as these subjects are somewhat interwoven, if it be the pleasure of the Association, I shall call for the report of Mr. McNear, the Chairman of the Municipal Bond Committee.

Mr. McNear (C. W. McNear & Co., Chicago): Will Mr. Dysart, Mr. Bullard, Mr. Elliott and Mr. Works come here in front? They are going to lead the discussion on the four subjects, if you please.

REPORT OF THE MUNICIPAL BOND COMMITTEE

The activities of your Committee during the past year have been reported from time to time in the official Bulletin.

Owing to lack of funds your Committee has been unable to do very much work along the lines of constructive legislation, but we are pleased to make the following suggestions and recommendations:

First. Your Committee urges and recommends that, so far as possible, all municipal bonds be issued in serial form, a certain amount of principal to mature each year. Such amounts to increase in a graduated series so that the annual tax levy, to pay both principal and interest, will so far as possible be uniform.

We further favor the retirement of the entire debt within the life of the improvement, such estimated life to depend largely on whether or not provision has been made for an annual obligatory maintenance tax.

Your Committee further recommends a single place of payment for interest coupons. A number of states provide that the interest on municipal bonds shall be payable in two or three different places, such as the Fiscal Agency in New York, the local Treasurer's Office and also at the office of the State Treasurer. This results in continued confusion on the part of municipal officials and in many cases causes temporary defaults. We naturally favor interest payments in New York or Chicago, but in any event, urge provision be made for payment at some one of the federal reserve cities.

Your Committee also desires to again emphasize and urge that municipal authority to borrow be kept within reasonable commercial limits. This was forcibly brought to our attention in California this year, when the Legislature at its session passed an act increasing the debt limit to twenty-five per cent. However, we are pleased to advise that largely through the efforts of this Association, the Governor was persuaded to veto the bill.

The subject of tax limits is of continuing importance. A municipality's power to levy taxes to pay its debts should be unlimited, and we urge the continued co-operation among the dealers along these lines.

We further favor, wherever possible, legislation authorizing the sale of municipal issues at a slight discount as outlined in our report of last year, also the passage of legislation permitting the registration of ownership of municipal issues.

To really do any effective work along these lines requires considerable effort, time, expense and concerted action among dealers in municipal bonds.

Your Committee recommends the appointment of a number of sub-committees in various sections of the country to work in direct conjunction with your Committee, not only to keep us advised of contemplated legislation which would be detrimental to municipal securities, but further to assist and co-operate with your Committee in their efforts to secure passage of legislation along the lines mentioned.

Respectfully submitted,

C. W. McNear, *Chairman.*

[Applause.]

The Committee has arranged four subjects for open discussion. We urge that anyone who has any idea or thought on any one of these subjects to please express it. In the meantime, while we are locating Mr. Elliott we will have Mr. Smith read his paper on "Drainage Bonds."

DRAINAGE BONDS

Tom K. Smith
Kauffman, Smith, Emert & Co., St Louis

A serial bond issue maturing in substantial amounts from two, three or five years to twenty years, yielding from 5½ per cent to 6 per cent, free of income tax and payable, as to principal and interest, by taxes levied on agricultural lands worth many times the amount of the bond issue, should receive the serious consideration of any investor. That drainage bonds should possess these characteristics, and not have attracted more attention and received more serious consideration in the general bond market, is indeed strange when we know that for years and years different sections of this country have been borrowing money and issuing bonds for the purpose of reclaiming and protecting wet and overflowed lands.

In Missouri we have been consistently marketing such bonds for fifteen years; the issues aggregate millions of dollars and are not only favorably received by our clients but are purchased without hesitation. The record of payment is so satisfactory that investment bankers in our state do not consider their lists complete unless they contain one or more such offerings. The same condition exists in almost every other state in the Mississippi Valley and in many other communities where splendid local markets for Drainage Bonds have been developed and where the buying competition is decidedly keen.

I mention this condition to emphasize the fact that drainage bonds are not a new form of investment but their importance has been overlooked until very recently, because of the manner in which they have been marketed. Very little effort has been necessary to sell the supply of drainage bonds in the local markets and dealers have not been inclined to do the exploiting necessary to create a general market for their securities. As a rule, the

WARREN S. HAYDEN
Hayden, Miller & Co., Cleveland

WM. G. BAKER, JR.,
Baker, Watts & Co., Baltimore

WM. R. COMPTON
Wm. R. Compton Co., St. Louis

JOHN E. OLDHAM
Merrill, Oldham & Co., Boston

MEMBERS OF THE BOARD OF GOVERNORS

single issues have not been large and have been so favorably received that nearly every one has been exhaused before outside investors could familiarize themselves with the offering. Fifty thousand dollar and $100,000 issues have been the rule; $200,000 issues were considered large and an issue of $1,000,000 was exceptional.

With the proceeds of these bonds wonderful results have been achieved; some of the most fertile and productive agricultural communities depend entirely upon artificial drainage constructed with the proceeds of bond issues. Encouraged by these successes, more extensive improvements have been undertaken and larger bond issues authorized; so large, in fact, that a broader market has become necessary. We have been forced to exploit drainage bonds and to offer them in the general market. Until this year, local capital has been sufficient to finance all Missouri drainage bond issues, but the supply has increased to such an extent that we have been compelled to interest outside dealers and investors. Since January 1st approximately $10,000,000 of drainage bonds have been issued in the State of Missouri alone and, when you take into consideration that our market is expected to furnish funds with which to finance improvements in several of the southwestern states, you can realize why it has been necessary for us to interest outside capital. In spite of the misgivings with which the first offerings were received, the result has been entirely satisfactory and today leading investment bankers are selling drainage bonds in large quantities and crying for more; in fact, the competition for good issues is almost as keen as it is for direct obligations.

I must be brief and, in the time allotted to me, can only discuss the general and fundamental characteristics of the drainage bond and make some suggestions for your consideration.

Inasmuch as the reclamation and protection of wet and overflowed land is a public improvement, the different legislatures have authorized the organization of drainage districts for this purpose or have provided that the work may be done under the supervision of existing Govermental agencies. Most of the laws have been carefully prepared and provide for the organization of drainage districts or the construction of the work under proper safeguards. The land owner's rights are preserved and the ad-

ministrative details have been worked out with great care. The manner in which a drainage district is organized and bonds issued is practically the same in cases where a district is created or in cases where the improvement is made and the bonds issued through the instrumentality of an existing political subdivision.

The owners of land in a defined area, suffering from the effects of water, decide to improve this land by the construction of canals and such other works as are necessary. A petition is prepared in accordance with the provisions of the statute and filed in the proper court. After notice has been given of the pendency of this petition, a hearing is held at which the court considers the case and decides whether or not the drainage district is a public benefit and should be organized. In case of an affirmative decision a decree or judgment is rendered, creating the district, and such steps are taken as are necessary to provide an administrative body. Land-owners may appeal from this decree within a certain and limited time, in which event the proceedings are reviewed by a higher court.

When the officials of the district are elected or appointed, they organize as a board of directors, elect officers, choose an attorney and employ engineers and take such other steps as are necessary to complete the organization. With the proceeds of preliminary taxes authorized by law, or with money borrowed on notes of the district, surveys are made and, if need be, consulting engineers are called into the case. When a definite plan of improvement is decided upon, it is referred to the court having jurisdiction; this court appoints officers to view the district and report the benefits, which, in their opinion, will accrue to the lands because of the completion of the work. These court officers or viewers, as they are commonly called, are assisted by the officials of the district and its engineer and, as a rule, they also estimate and report the cost of the work as well as the damages on account of land taken for right-of-way, etc. When this report is complete it is filed with the court appointing the viewers and a hearing is held after due notice has been given, as is required by law. At this hearing any land-owner or the drainage district may present evidence as to the justice or injustice of the benefits assessed against all or a part of the land in the district and, when the evidence is concluded, the court renders its decision in the form

of a judgment amending and confirming the assessment of benefits. I am assuming, of course, that the benefits as reported by the viewers and adjudged by the court exceed the estimated cost of the improvement because, if they do not, it at once becomes apparent that the improvement is not meritorious and the proceedings are dismissed. The assessed benefits represent the increased value which the law contemplates will accrue to the lands because of the improvement and, after confirmation, they become the basis of taxation for the purpose of paying the cost of the improvement. The right of appeal from the decision of the court assessing the benefits is given to all interested parties so that these proceedings are also subject to review by a higher court.

It next becomes the duty of the officials of the district to provide funds with which to construct the improvement and, in most cases, bonds are issued by the district or on behalf of the district by a political subdivision including the same. These bonds ordinarily yield from 5½ per cent to 6 per cent, are general obligations of the district and are payable, both principal and interest, by taxes levied upon the real property against which benefits have been confirmed and in proportion to the same. In most cases the provisions authorizing the issuance of drainage bonds are very favorable and provide for serial maturities in substantial amounts within the reasonable life of the improvement. In some states the entire issue must mature within fifteen years; in others the limit is twenty, twenty-five or thirty years but twenty years is the rule with substantial payments beginning as soon as the benefits are received. Any other arrangement is exceptional and it has become customary to arrange the maturities so that the average requirements for principal and interest are uniform. The question of serial bonds maturing within the life of the improvement for which they are issued is a live one, and drainage bonds offer the best example of the possibilities in this direction. That this condition exists is not an accident but is the result of careful consideration on the part of the legislators of the several states who have been in constant consultation with investment bankers experienced in this particular field. The average drainage bond possesses many of the favorable features of the direct obligation and is more attractive in the respect hereinbefore mentioned. The two classes of securities differ fundamentally

only insofar as the basis of taxation is concerned. Direct obligations are paid by taxes levied on the basis of the value of property while the taxes to pay drainage bonds are based on assessed benefits; in both cases the taxes must be uniform as to rate.

Draining or improving land by removing water or preventing overflow, confers a special benefit which can be estimated with a reasonable and satisfactory degree of certainty; hence it is equitable and proper that drainage taxes should be levied in proportion to the benefits and not in proportion to the value. An improved farm, located on the edge of a district, requires less drainage and receives less benefit than a piece of land which is covered by water all or a substantial part of the time.

When drainage bonds are issued the district pledges itself to provide for the payment of the principal and interest by making such tax levies as are necessary. In most cases the total tax is levied and becomes a fixed lien upon the property, the district agreeing and binding itself to levy and collect certain annual instalments which will be sufficient to meet the requirements for principal and interest. In other cases the total tax is divided into instalments and set out for the various years, the annual instalments being extended against each tract of land. Either method is satisfactory because the drainage district is bound to extend and collect sufficient annual taxes to provide for the payment of the principal and interest of the bonds, and usually the law requires that the annual tax levies shall exceed the requirements by at least ten per cent. Where no definite requirement is made, the purchaser should insist upon this provision.

No improvement should be undertaken or authorized that does not improve the land more than its cost. In other words, the benefits should exceed the cost, and theoretically, the taxes levied to pay the principal of the bond issue are limited to the amount of the benefits. If, however, for any reason the taxes are improperly levied or misappropriated, the courts have repeatedly held the taxes in excess of the benefits must be levied to pay the bonds. In other words, if bonds are issued and the proceeds expended by the district, the principal and interest must be paid. As a rule, the benefits are considerably in excess of the bond issue and most states limit the bonds to ninety per cent of the tax levy, which provision should be insisted upon in case it is

not required by law. In cases where the taxes are levied and divided into instalments at the time the bonds are issued the law ordinarily requires the increase of the tax levy if necessary to pay principal and interest. In cases where the levy is made annually there is always the requirement that it shall be sufficient to produce a sum equal to the annual requirements for principal and interest.

Inasmuch as the officials of a drainage district are seldom experienced in this work and frequently have little in the way of precedent to follow, the drainage laws are very complete in stating how and when the taxes shall be levied and collected. The levy is usually made by the officers of the district and the taxes collected by the same officials who collect state and county taxes. The penalties for delinquencies are severe and the law requires that the collection of delinquencies be enforced with more promptness than in the case of general taxes. In one state, drainage taxes become delinquent on December 31st and bear a penalty of two per cent per month thereafter; suits to enforce the collection of the same must be filed before July 1st of the following year and the land-owner is required to pay all costs as well as the attorney's fees.

The maintenance and preservation of the drainage improvement always receives serious consideration and in most cases proper provisions have been made for the care of the same by taxation or allotment. Adequate provisions are made for the continuity of the administration and sufficient funds are assured for incidental expenses. These details must be contained in the law before a drainage bond, issued thereunder, can be attractive.

The drainage laws have been reviewed by the higher courts of the different states and, in most cases, the decisions have been decidedly favorable. In fact, the courts are inclined to favor drainage improvement and are emphatic in their statements that the principal and interest of drainage bonds must be paid in full.

The following concrete examples are interesting:

Twenty years ago a drainage district, embracing 50,000 acres of land was organized; bonds aggregating $85,000 were issued and the work completed. Although the engineers and officials had had practically no experience in such work, this improvement resulted in practically all of the land in the district being opened

for cultivation. At the time the district was organized the land was worth not more than $10 per acre, which furnished sufficient security for a debt of less than $2 per acre. By supplementing the drainage with additional work, an efficient system was produced. At the present time all of this land is in cultivation and is worth from $75 to $150 per acre. The bonds matured serially from two to fifteen years, the interest was always promptly paid and the different instalments retired at maturity. The taxes amounted to but a few cents per acre, were not burdensome and were gladly paid. I watched the payment of these bonds and the development of this land with a great deal of interest because it furnished a concrete example of the organization of a drainage district, the completion and satisfactory maintenance of the work and the prompt payment of the principal and interest of the bonds. At the present time the district is out of debt and its excellent record is a justification of the issuance of drainage bonds and their purchase by conservative investors.

Another district, organized fifteen years ago, embraced 100,000 acres and issued $200,000 of bonds maturing within twenty years. The work was completed promptly, has been efficiently maintained, and the land is in cultivation and covered with substantial improvements. Although but five instalments of the bonds are outstanding, the district has surplus funds to cover the last two instalments and will probably only collect three additional tax levies. Fifteen years ago this land was worth $15 per acre; today the average value is at least $100 per acre.

Another district, organized five years ago, embraced 45,000 acres of land and issued $350,000 of bonds. The drainage system is complete and 75 per cent of the land is in cultivation. Five instalments of the tax have been paid without controversy and three serial maturities of bonds retired, leaving fifteen more to be cared for. At the present rate, all of the district should be in cultivation within two or three years and it is evident that the remaining taxes will be promptly paid so that the bonds may be retired on or before maturity. Since the organization of this district the land has doubled in value.

This year a drainage district embracing 200,000 acres of land, issued $400,000 of bonds maturing serially from 1918 to 1935, so that the annual requirements for principal and interest

were uniform. The proceeds of these bonds are being expended in constructing the drainage system and, although the benefits have not been received, the land has already enhanced in value. Over fifty per cent of the district is in cultivation and improved and the land is worth from $20 to $125 per acre, averaging about $40 per acre against an average bonded debt of $2 per acre and a high bonded debt of less than $5 per acre. The average annual requirement for principal and interest is 12 cents per acre for the first two years and 17 cents per acre thereafter; the maximum annual requirement is 30 cents per acre for two years and 45 cents per acre thereafter. The plans and specifications for this district were prepared by an experienced drainage engineer and examined and approved by a consulting engineer of national reputation. The work should be completed and the entire benefit be received within two years. When this is accomplished, practically all of the land should go into cultivation and increase in value at least one hundred per cent. The present value of the land insures the payment of taxes which should be forthcoming without hesitancy or controversy because of the enormous benefits the district will undoubtedly receive.

The examples I have given are typical of drainage bonds which we recommend to our clients. The security has always been adequate at the time the bonds were issued and as the benefits have been received and as the land has increased in value, they have become seasoned bonds capable of withstanding the closest scrutiny. In other cases the debt may have been higher but the aggregate value of the land, being five or more times the bond issue, furnished sufficient security.

The value of the land at the time drainage bonds are issued may be sufficient to justify a debt of $10, $15 or possibly $20 per acre but when the proportion between the value and the bonded debt becomes less than three for one, the bonds become less and less attractive until they reach the speculative stage.

I have in mind a district, embracing 25,000 acres of land, worth not to exceed $10 per acre at the time the district was organized. To reclaim this land required an expenditure of $15 per acre; when the land was drained it was worth $50 per acre. This issue of bonds was declined because the security was not adequate and the bonds were carried by the land-owners until

two or three years after the system was completed, when they were sold to investors. In the meantime, the land had been drained, a large part of it had been put into cultivation and the values had increased several fold. The taxes were promptly paid, the early maturities retired without delay and the efficiency of the drainage system demonstrated. Obviously, these bonds are now regarded as investment securities and a dealer is justified in offering them to his clients. Contemplating the low value of this land and the enormous benefits accuring because of the drainage, it is not proper that such bonds should be sold to investors until the reclamation is assured.

In order to emphasize the attractive features of the drainage bonds, I desire to call your attention to the following salient details which demand and receive serious consideration before an offering is approved:

1. The drainage improvement must be necessary and must be justified by the development of the surrounding country. Unless there is a demand for additional agricultural lands, the unimproved territory had better remain in its present condition.

2. The success of the project depends upon the support and approval of the land owners and the concensus of public opinion should be in favor of the improvement.

3. The land in the district, or a large part of the same, must be owned by parties who expect to develop it. If colonization is necessary, the bond issue is not attractive. Large ownerships are scrutinized carefully and bonds payable by taxation on corporate property are avoided.

4. The law under which the drainage district has been organized must be entirely satisfactory and the proceedings approved by an attorney experienced in this work. The few poor drainage laws are avoided.

5. The plans and specifications must have been prepared by an experienced engineer and all extensive improvements examined and approved by a reputable consulting engineer. The contractor must be responsible and his surety bond satisfactory. The contract must limit the cost of the work and require its construction according to specifications.

6. The prospective benefits must be greatly in excess of the cost of the work. Unless a drainage improvement enhances the

value of the land considerably more than its cost, the project will be slow in working out.

7. The present value of the real property subject to taxation must exceed the bonded debt by an amount sufficient to insure the payment of the taxes and no speculative bonds are purchased.

8. The annual requirements for principal and interest must not be burdensome.

9. The details of the bond issue are arranged to meet the requirements of the most particular investor. The dates of payment are arranged so that the funds will be available. The bonds begin to mature as soon as the benefits are received and are retired within the reasonable life of the improvement.

10. The benefits confirmed and the taxes levied exceed the bonded debt by a substantial amount. There is at least a ten per cent margin between the tax levy and the bond issue and between the annual instalments and the requirements for principal and interest. As a rule, the taxes are levied against agricultural lands privately owned and any deviation from this rule lessens the popularity of the security.

11. The total indebtedness of a community for all purposes receives consideration when a drainage bond is offered. If the aggregate debt is burdensome, the particular issue of drainage bonds is refused.

12. The officials of the district must be responsible and must be vitally interested in the success and maintenance of the improvement. It is customary to require proper methods of accounting and auditing of the records at certain intervals, say semi-annually during construction and annually thereafter.

13. As a rule, the proceeds of the bonds are secured by surety bonds or collateral, this feature always receiving careful consideration. This same provision applies to the protection of the taxes collected for principal and interest.

14. The record of tax payments in a community is considered and some localities are avoided because of poor administration.

15. The law must provide sufficient maintenance funds and the officials of the district are committed to proper maintenance.

Under a ruling of the Treasury Department, drainage districts are considered political subdivisions; consequently, the income on

drainage bonds is not subject to taxation under the provisions of the Federal Income Tax Law and no certificate of ownership need accompany the coupons when they are collected.

The merits of drainage bonds are obvious. They present a combination of highly advantageous features. It is, therefore, only a natural result that they should be attractive to investors desiring a bond payable by taxation, free from income tax and yielding a higher rate than is offered by direct obligations. These qualities insure a great demand. We can also foresee the supply for this demand because it is claimed that 25,000,000 acres of land in the Mississippi Valley alone await improvement by drainage. I, therefore, commend the drainage bond to your careful consideration. [Applause.]

The President: The first subject for open discussion is, "Should the Present Practice of Advertising Names of Attorneys approving Municipal Bonds be Discontined." Mr. Edgar Elliott will lead the discussion.

Mr. Elliott (Breed, Elliott & Harrison, Chicago): On this subject, I realize that it really is a matter for each individual house to decide for itself. It has been the practice of the majority of the members of this association to advertise the name of the attorney who has passed on a municipal bond issue. This practice has reached the point, where, through the use of the attorney's name upon our circulars, we have created what is called a commercial attorney's opinion. However, having created this so called commercial attorney's opinion we have probably grown careless and have not considered the legal opinion of as much importance as it should be. We all know of firms of attorneys, who by long usage of their name upon our circulars, have been very well established with the investor and their opinion is taken without question, although it is a matter of personal knowledge to us that the member of a firm whom we had regarded as expert is no longer giving his attention to municipal issues. This is not the real idea of an attorney's opinion and in my judgment is not fair to ourselves or our clients. In a corporation issue there is practically no so called commercial opinion and we use as attorneys, the firm that is best equipped for that particular piece of business. We all of us realize that the private investor looks to the selling house to see to it that the bond is

legally issued, and, therefore, if the opinion is satisfactory to the house selling, it certainly should be to the investor.

It is also very important, I believe, to call attention to the fact that although there are practically no new attorneys in the municipal bond field, the issuance of municipal securities has increased over three fold in the last ten years. This, you can readily see has forced a great deal more work upon the firms of attorneys who have established a commercial name, with consequent delay to the purchasing houses. This becomes quite a burden to the purchaser, as we all know that municipals are bought on a very narrow margin and oftimes changing market, wherein a delay of thirty to sixty days in securing legal opinion might cause a considerable loss to the purchasing dealer. If it had not been for the fact that through the names of certain firms approving bonds appearing on our circulars time after time, until we had educated our investor to expect to see that particular name, we would be at liberty to receive the opinion of other counsel that was as satisfactory to us.

The President: Has anybody any ideas on the subject The reason the subject was brought up was that we feel the advertising of names of attorneys on our circulars should have discussion.

Mr. Martin (Fidelity Trust Company, Kansas City): I suggest, after hearing the gentleman who has spoken here before me that the attorney's opinion has been created by the investment bankers. The marketable, or saleable value has been created by the investment banker, and its position is artificial as regards the relation of attorney and client. Many people require the opinion of an attorney whom they really do not know. In fact, the investment banker has secured the opinion and it is accepted by the investor because he has faith in the dealer, and not because he has faith in the attorney and the idea has occurred to me that this opinion as part of the record or detail of an issue of bonds is expected to exist until the maturity and payment of the bonds; that is for whatever worth it may be, until the bonds run to their maturity. It frequently occurs that an attorney's opinion is handed down with the bonds, after the attorney himself is deceased. Does the opinion have any real value as a part of the title? The idea I was coming to is this: It seems to me that the

time may come when investment bankers may develop a demand that insurance companies should guarantee the legality of municipal bond issues. Then you would have something that is worth while and the cost of such insurance of legality would not exceed the cost of attorney's opinion, and would guarantee the legality of the bonds.

There are plenty of bond dealers who are fully competent to pass upon all statutory requirements and the important thing is the constitutionality of the law under which the issue is made. Bond dealers themselves can pass generally upon the statutory requirements.

Mr. Peebles (Brown Brothers, Philadelphia): This suggestion occurs to me: What opportunity will dealers have in years after the bond issue has been placed to be able to say what counsel passed upon the legality of an issue, when bonds are offered to another house than that which brought them out, if some information is not given upon the circular describing the bonds as to what counsel passed upon the legality?

Mr. McNear: I think I can answer that by saying that we do not propose to discontinue the practice of having attorneys' opinions. We are simply discussing the possibility of discontinuing the practice of placing the names of attorneys on circulars. Whoever issues a circular will certainly have his name on that circular, and that house will have the attorney's opinion on file. It is not necessary to place the name of the attorney on the circular to preserve the opinion; but the practice of keeping opinions accurately to protect purchasers of bonds will not be discontinued.

Mr. Andrew Price (John E. Price & Company, Seattle): The suggestion is not a new one, that opinions and transcripts be filed with the Secretary of the Investment Bankers Association of America, and it would seem that the practice of the discontinuance of the use of opinions or the names of attorneys upon circulars which was established with the filing of such opinions with the Investment Bankers Association's office, might overcome the obstacles suggested by one of the other gentlemen.

Mr. Chamberlain (Kountze Bros., New York): I was just about to make the same suggestion that Mr. Price has made.

It seems to me that is a practical service we could render; if not exactly that, then something along that same line.

The President: I think I might call attention to the fact that in the Baltimore meeting that question was fully discussed, and after full discussion it was decided that we need not do that. It is, of course, possible that we will bring that question up again, but at this time it seems unnecessary to do so.

Mr. Chamberlain: I beg your pardon. I was out of the room at the time.

Mr. Paine (Union Trust and Savings Bank, Spokane): It seems to me that the suggestion of this committee is a very happy one. My experience in handling these municipal bonds among individual clients has led me to believe that many individual investors require and ask for the opinion of certain counsel, not that they know anything of the superior qualifications of this counsel, but that his name is familiar; and it seems to me that if we continue our habits of having a careful examination made by attorneys in whom we have the utmost confidence, and hold ourselves in readiness to give a certified copy of that opinion to anyone who may ask for it, that all will be accomplished that is desired. Then, if any of us have on hand some particularly large sale to some purchaser who requires the opinion of other counsel, we have a transcript in our files, and we may send that transcript to this second counsel, and thereafter have the two opinions. I think the suggestion is a very happy one.

Mr. Ross (Second Ward Savings Bank, Milwaukee): This is, of course, a very practical suggestion. All of us who have dealt extensively in municipal bonds have discussed different forms and methods, and occasionally have been delayed, while some particular attorney, who is one of big reputation in the municipal bond business, has passed upon that particular deal at his office, and we have many other bond houses in the same boat with ourselves.

We have unquestionably put ourselves in a position where we are abused by our counsel, systematically in some cases, and the policy, as Mr. Elliott has suggested, has already been adopted by some of the largest municipal bond dealers in the country, and some of us smaller fry are falling in line very rapidly as a matter of protection to our clients and our investors.

Mr. McNear: Does anyone wish to say anything further on this subject? I do not believe it will be necessary to get the expression from the entire convention unless some one wants to put it in the form of a resolution for a vote. All we want is the general consensus of opinion. If anyone wants to put it in the form of a resolution, we can get the expression; otherwise, we will go on with the next subject.

Our next subject is, "What is meant by Municipal Joint Account, divided as to liability—undivided as to selling?" [Laughter.] People in the municipal bond business have various ideas on this subject. It is very simple if the bonds are selling at a profit. The trouble is where the present market is less than the actual cost.

Mr. Bullard (E. H. Rollins & Sons, Chicago): Mr. President and members: I take it, I can best fill the office of leader of this discussion if I can compel other people to talk on the subject. I will, therefore, confine myself to a statement of the fundamentals of the joint account. There are three elements: contractual liability, which within my experience, is always divided; carrying liability, is almost without exception divided except in such cases as there are members of the account in the banking business who have funds which they wish to employ in carrying the bonds for their other members. This is usually a matter of individual arrangement. And then, there is the question of the method of selling, and that is the one which provokes the trouble when the bonds do not sell. When the account is closed up at a profit, and the bonds have been sold within a reasonable length of time, it is simple enough to settle it and there are never any disputes, but when there are bonds left, then the interpretation of the divided selling account becomes a matter oftentimes for heated discussion. The ordinary practice in New York is to have a redistribution of the unsold bonds, on the same pro-rata basis as the original contractual liability. This is objectionable to a great many houses, and in Chicago we have developed another type of the undivided selling account under which a member discharges his liability to the extent of his own sales, and in dissolution, of the bonds unsold, his liability is for the difference between his contract liability and the amount of his sales. This has been discussed in the meeting of the Municipal Bond Committee, and

H. P. Wright
H. P. Wright Investment Co., Kansas City

Charles H. Gilman
Chas. H. Gilman & Co., Portland, Me.

Wm. L. Ross
Second Ward Savings Bank, Milwaukee

Eugene M. Stevens
Stevens, Chapman & Co., Minneapolis

MEMBERS OF THE BOARD OF GOVERNORS

it provokes a considerable amount of discussion, because there seems to be a difference of opinion as to just what that means, and I believe I can best serve the purpose of leader of this discussion by asking the other members of the committee who heard this discussion to carry it forward. Simply stated, taking a concrete case, if there are three members in a three hundred thousand dollar account which is divided as to liability and undivided as to carrying, there seems to be no difference of opinion that each member must take up under the contract his one hundred thousand of bonds and must carry them. In the undivided selling account, as it has been developed in Chicago, each member would discharge his own liability, to the amount of his own sales; then, if the account were dissolved before all the bonds were sold, the member who had not discharged his liability would receive bonds to the extent of that undischarged amount, taking them, for convenience in settling, out of the syndicate, at the minimum selling price for that particular quantity; and there would then be a division of the profits or the losses, as the case might be, on the basis of the original contract liability. With that thought placed before the meeting I think I have nothing further to say. [Applause.]

(Vice-President Edminson in the chair)

Vice-President Edminson: I really think that of all the four subjects, probably none of them are of more general interest than this one. Everyone here who deals in municipal bonds I am confident has some ideas on this subject of municipal joint accounts. Of course, there is the simple divided joint account, where every one takes his own bonds and sells his own bonds and keeps his own property; then there is the undivided joint, where the profits are not divided until the entire issue is sold, or whatever profits or losses are divided *pro rata* as to the participation in the deal. In other words, out of the original five hundred bonds, there are two hundred bonds left — when it comes to settling the account everyone is supposed to take up their *pro rata* share of the two hundred thousand bonds left. Within the last year and a half they have developed this new joint account in Chicago, divided as to liability and undivided as to selling. In other words, each house is never called upon to take up more than their original participation in the

deal. In other words, if there are five houses in a half-million dollar deal, each with one hundred thousand participation, and two or three houses sell their bonds, they have no further liability in regard to the remaining two hundred thousand of outstanding bonds. But there have been several discussions when it comes to settling on that basis, and I would be very glad to hear from any of you on that subject.

Mr. Wm. G. Baker (Baker, Watts & Co., Baltimore): Mr. Chairman, it seems to me the question is very practical, and the menaces which you have pointed out and the contingencies which may happen are so few, that there is only one solution to the problem, and that is a clear cut, definite contract when the syndicate is organized — when the joint account is organized. As you state, none of us, or very few of us, have divergent views as to what we mean by the expression. It seems to me the only way to settle it is for each individual case, when you organize a joint account, to state exactly what is going to happen in case the bonds are sold — who has to take up, and what they are to pay for the unsold bonds. Even the length of time that the syndicate is to run might be included. I do not believe we will ever arrive at a very comprehensive agreement as to what we mean by this statement, and that each case will have to be settled as it stands, on its own merits.

Vice-President Edminson: What we want are ideas. That is one of them. Let us have another.

A Voice: I can see no difference between this and other joint accounts that you have in the corporation bond business. It seems to me that Chicago, looking for progress, has invented something that isn't sound; that you really ought to have a divided joint account or an undivided joint account. It seems to me they have invented something like the Government's invention of income taxes; if you make any profit, it is the Government's; if you make any loss it is yours. If you sell all the bonds on a divided joint account, and there is a profit—we will say one man, as I understand the premises, might sell two hundred and fifty bonds out of the three hundred—he would only get a *pro rata* profit on one hundred thousand; is that right?

Vice-President Edminson: Plus the selling house is commission. There is no worry at all about the selling if there is a

profit. It is only when there is a loss. When there is a loss they are worth less than the cost price.

A Voice: Still, I don't think it is reasonable to let a man out of the commitment on that basis, if the selling is to be made for the joint account.

Mr. Bullard: If I may answer that objection, it is this: that dealers in municipal bonds — I think dealers in all bonds — object to riders in joint accounts; people who do not perform service according to the commitment. And if a man must discharge his liability through his own distributing efforts, and if he does not discharge his liability in that way, must continue it, then there is an incentive for everyone entering a municipal joint account to take only such commitment as they think they can discharge through their own ability to distribute, and to continue their efforts until all the bonds are sold along that line. When it comes to selling other people's bonds, then the selling-house commission is presumed to be the incentive. The ordinary New York type of underwriting syndicate has become repugnant to dealers in bonds because it was formed in the first instance for the purpose of distributing the bonds from the original buyer to a very large number of people, a great many of whom did not intend to sell. They were taken in for their carrying capacity; then the selling of bonds was handled through a comparatively small number of houses, who were presumed to be paid for their selling; so that the average underwriting does not very well apply to the municipal bond business, or at least it does not seem to apply to the satisfaction of a good many houses that deal very largely in municipal bonds.

Mr. Martin (Estabrook & Co., Chicago): When this matter came up in the committee I felt it was something that there was no need of bringing before the convention. I think this is a personal matter for each house to adjust these joint accounts when the account is made. Now, so far as this riding goes, anybody that takes a house in after riding once or twice, it is their own fault. [Laughter and Applause.] There may be special cases where a house is riding on one loan; he may turn around, on an entirely different one, and you will do the riding. This idea of taking the same house in and giving them a ride — it doesn't happen. I believe, on account of the different ideas in New York and Chicago, and all around, that it is better for the houses when they form

this account, to have it definitely understood just what is intended to be done; if there are any bonds left, or if the account has absolutely been settled when the bonds are bought, do not let it go until the last minute and have a fight about it. I do not think it is anything that the convention should take up as a whole. [Applause.]

Mr. Stacy (Stacy & Braun, Toledo): I agree with Mr. Martin that this is a question that can only be settled between the participating parties. Nevertheless, I think within the last year and a half there have been several misunderstandings. I think the real object of bringing this up here is to satisfy some of the old scores, and just get an expression from the convention. An account that is divided as to liability and undivided as to selling—my only interpretation of that has been, if we go in on two hundred bonds and we sell our hundred, and that account drags along, and the market drops below the purchase price, and we want that account settled, it is between the two parties to settle that account, and there is only one way to do it and that is to divide the profits on the bonds sold, and the participant who has not sold his bonds will take his and relieve the other party. It is divided as to liability and undivided as to selling; and when you want to dissolve an account, it occurs to me that that is the only way it can be dissolved. Furthermore, if the other party has sold all of his bonds and we have not sold ours, and we want to sell them below our agreed price, or below cost, we stand that loss; and, as I say, if there could be some expression in this convention, I think that it would establish a guidance for bond dealers is settling their disputes.

Mr. Bullard: Suppose you had an account with a million bonds among five houses, four of them had sold their liability, and the other house had sold none, and made no attempt to sell them, and the bonds could still be sold at a profit, and it seemed desirable to dissolve the account in order to close up the business, then how would you divide the profits on the bonds? Would each house be willing to contribute to the house that sold no bonds, and give them a profit on the bonds sold by them? That would be directly in line with doing it the other way, when there happens to be a loss.

Mr. Stacy: Just as Mr. Martin says, if they would ride only

once, let them ride. I don't see any other way of dissolving the account. If there is another way, I would like to know.

Mr. Bullard: The plan we have adopted in Chicago is another way of selling those bonds to the house that has not discharged its liability, at the minimum selling price, and then dividing the profits; then, the syndicate member who has not discharged his liability becomes a buyer of his undischarged liability at the selling price, and he gets his share of the profit. But no part of the profit of the other members, which they have earned through their own sales, is contributed to the particular member, which would be the case if they received twenty per cent of the profit on eighty per cent of the bonds, and their two hundred bonds besides.

Mr. Bulkley (Spencer Trask & Co., New York): I would like to ask what the advantage of this kind of an account in Chicago is over an undivided selling account.

Mr. Bullard: The advantage is this: In an ordinary account — we use that as a term, and using concrete figures again — if there are five members, each in for two hundred thousand, and eight hundred thousand of the bonds were sold, then in dissolution of the account each syndicate member that has discharged its liability is to receive its *pro rata* of the unsold bonds.

Mr. Bulkley: I do not so understand it. You divide it as to liability and you sell your own bonds.

Mr. Bullard: I never saw a New York account sold in any other way.

(*President Leach resumes the chair.*)

The President: He means just a plain, divided account.

Mr. Bulkley: What is the advantage of this over a plain, divided account?

Mr. Bullard: The advantage is this: that in the sale of municipals, many of which are serially maturing, it gives every selling member an opportunity to sell all bonds, and it also gives the syndicate member complete control over the disposition of the bonds and secures a single confirmation of sales, and particularly an opportunity to offer all of the bonds of each maturity on the part of each selling member of the account, and that is becoming quite an important factor where bonds mature, as many of them do in from one to twenty or one to forty years and in comparatively small amounts each year.

Mr. Bulkley: I will ask you, in case of a small issue, we would say, of a million dollars, of five interests, and one interest sells two hundred thousand of the early maturities, does that relieve that interest of the early liability in the other maturity?

Mr. Bullard: Yes, surely, but the other syndicate members, if there is a dissolution with bonds unsold, will take the later maturities at the sale prices, which equalizes the situation, because then you get the distribution of profit to everybody alike — that is, selling the early maturities is largely a matter of getting up in the morning. [Laughter.]

Mr. Lyon: May I say just a word here? The language under discussion here came to my attention during the summer. I thought I understood exactly what was meant by it. However, I did not want to rely on my own opinion in the matter. I went to a man who has charge of the conduct of joint accounts for one of the very large New York houses and asked him if my understanding of that language was correct, and he said it was; but I still did not feel content and went to a man who had the handling of joint accounts for another large house and asked him if my understanding was correct, and he said it certainly was not, and I went around to still a third man and asked him what the language meant and he said "it doesn't mean anything at all." [Laughter.] That well illustrates the difficulty you are bound to get into in attempting to enter into a joint account and hinge the entire account on the meaning of just two or three words. There are some twenty-five or thirty distinct elements that may necessarily enter into every account, and I believe that you will have to sit down and just check up on each one of these things and determine what contract you are forming when you do anything under that account.

Mr. Bullard: We have tried to cover that in Chicago by rather liberally stated terms of joint accounts where particularly there were several members; it does not make so much difference where there are one or two, but with five, six or seven in the account, it is really becoming quite necessary, as a matter of experience, to use up considerable paper in making our detail clear.

Mr. McNear: I am going to make this suggestion. The two possible methods of settling such accounts are undoubtedly the one outlined by Mr. Bullard and the one by Mr. Stacy. I am

going to request that each of you write a short article outlining in detail your ideas of such joint accounts and possibly arrange to have it published so that all of these gentlemen can refer to either of your papers. That is the only possible way of forming a solution at all. We shall now hear from Mr. John B. Works.

Mr. Works: Gentlemen, it may be of general interest to know what we did in Ohio last year in the matter of changing our laws relative to special assessment bonds.

SPECIAL ASSESSMENT BONDS

JOHN B. WORKS
Tillotson & Wolcott Co., Cleveland

Section 3914 of the General Code of Ohio in force until this year reads:

"Municipal corporations may issue bonds in anticipation of special assessments. Such bonds may be in sufficient amount to pay the estimated cost and expense of the improvement for which the assessments are levied. In the issuance and sale of such bonds the municipality shall be governed by all restrictions and limitations with respect to the issuance and sale of other bonds, and the assessments as paid shall be applied to the liquidation of such bonds."

This section and similar statutes authorizing the issuance of various county bonds have been in force for a number of years and Ohio dealers have uniformly regarded such bonds as general obligations, although the statutes did not specifically so state.

This opinion was based on a decision of the Supreme Court of Ohio in the State v. Commissioners 37 O. S. 526, as follows:

"The Act of March 28, 1867, and the Acts amendatory and supplementary thereto commonly called the two mile road improvement laws, authorize the commissioners of counties for the purpose of raising money necessary to meet the expenses of road improvement 'to issue the bonds of the county' and thereby create a debt of the county in its quasi-corporate capacity, notwithstanding they also require the commissioners to assess the cost and expense of the improvement upon the lands benefited thereby and situated within two miles thereof.

"When from any cause sufficient money be not realized from such local assessments to pay all debt so created, it is the duty of the commissioners to levy a tax therefor upon all the taxable property of the county.

"A purchaser of such bonds who has no actual knowledge of any defect in their execution is not bound to look beyond the finds and record of the commissioners for the purpose of ascertaining whether conditions precedent to their execution have been performed."

This has been a leading case upon the proposition that unless

the intent of the law is plainly to the contrary, a municipal corporation which puts out bonds claiming to be bonds of the city or county, as the case may be, is bound, as between its innocent purchasers and itself, to pay the bonds by a levy of a general tax even although as between the municipality and its tax-payers there may have been an agreement or provision of law that the money to pay the bonds would be realized from local assessments.

While Ohio dealers have regarded both county and city bonds in Ohio payable from special assessments, as general obligations, the question has been frequently raised by outside investors as to the status of such bonds. At the last session of the Ohio legislature by the co-operation of Ohio houses we were able to secure the passage of an act reading as follows:

"Section 3914-1. Bonds issued in anticipation of the collection of special assessments shall be full, general obligations of the issuing municipal corporation, and for the payment of the principal and interest of the same the full faith, credit and revenues of such municipal corporation shall be pledged. To provide for any deficiency in the payment or collection of said assessments as the same fall due, the council of the issuing municipal corporation shall, prior to the issuance of the bonds above mentioned, provide for the levy of a tax upon all the taxable property of said corporation."

"Section 5630-1. Bonds issued by county commissioners in the manner provided by law in anticipation of the collection of special assessments levied against the property abutting upon a proposed improvement or to be benefited thereby, or in anticipation of the collection of taxes upon the taxable property of any township, or townships, of the said county within which such improvement is to be made, shall be full, general obligations of such county, for the payment of the principal and interest of which, when due, the full faith, credit and revenues of such county shall be pledged. The county commissioners shall, prior to the issuance of the bonds above mentioned, provide for the levying of a tax upon all the taxable property of the county to cover any deficiency in the payment or collection of such special assessments or township tax."

This law is found on Page 495, Laws of Ohio 105-106.

It has been quite a satisfaction to us to find that since the

passage of this act we have been able to place bonds of Ohio counties and municipalities, payable from special assessments, with investors who had heretofore refused to purchase bonds of this character on the ground that they might possibly be held to be not general obligations of the issuing municipality.

The question as to whether bonds payable from special assessments should be general obligations of the issuing municipality is one to which we can see but one answer, and that in the affirmative.

First: Making special assessment bonds general obligations will improve municipal credit. It is a bromide that the investment business, more than any other, rests on confidence. It is for this reason that the first sale to a customer is the hardest one to make. After a number of purchases of securities have been made and payments have been promptly met, it is ordinarily an easy matter to make further sales of the same class of bonds. On the other hand, if the bond buyer has an unfortunate experience he will, in many instances, entertain the views expressed to me many years ago by a good old doctor in Western Pennsylvania who had made a permanent investment in some city bonds. His unalterable opinion as stated by him was, "municipal bonds is surely the damdest things that anybody ever got his money mixed up with," and from the account he gave me, his money certainly was so mixed with the bonds that he was never able to separate the two again.

It is most important to all members of this Association that the fewest possible defaults occur, and if we can eliminate from the market the bonds giving the greatest cause for complaint in this particular we will greatly improve the sentiment for municipal issues. By far the greatest amount of municipal bonds in default in recent years have been special assessment issues. Direct obligations of many municipalities today are looked on with disfavor, owing to the fact that some of their special assessment bonds have not been paid promptly or have defaulted altogether.

Many buyers do not discriminate intelligently. The president of one of the largest savings banks in the country once refused to consider an offering of Minneapolis bonds, for the reason that in 1867 he had bought some bonds in Minnesota which the Supreme Court of that State held invalid. Another investor declared himself out of the bond buyers' class altogether because he had made

an investment in some bonds of an irrigation district which refused to be irrigated. The holder of defaulted special assessment bonds is more than likely to have a club ready for the municipal bond salesman, regardless of the merits of his offerings.

Second: Making special assessment bonds general obligations will tend to conservatism in municipal issues.

During recent years there has been an increasing tendency to enlarge the bond issuing power of municipalities. All of us who handle municipal bonds have recognized this fact with apprehension; and while the borrowing power of municipalities should not be so limited as to interfere with their proper development, every effort should be made to keep such power within proper bounds.

It has been very easy for speculators in allotment property to secure the necessary legislation for the issue of improvement bonds payable from special assessments, since the bonds were not to be a charge on the general tax duplicate, and in case of their non-payment no obligations should rest upon the municipality. If the property owners wanted to obligate themselves, the city fathers "should worry."

This unhealthy situation can be done away with by the passage of laws making such bonds general obligations which the municipality must pay by general taxation in case the special assessments do not meet the requirements of the bonds.

Even city councils have lucid intervals, and when it is understood that a bond issue, although payable primarily from special assessments, may eventually have to be met by general taxation, the tendency will be to make careful investigation as to the necessity for proposed improvements and the collectibility of assessments levied against the property improved.

Third: *By making special assessment bonds general obligations, a lower interest rate can be secured by the issuing municipality.*

There have been instances of general obligations of a city selling on a 4 per cent basis or lower, while only a limited market could be found for special assessment bonds of the same city on a 6 per cent basis. Making special assessment bonds general obligations will equalize these rates.

It may be argued that this is a matter in which we are not interested, that our business is to make money from the sale of

securities and let the municipalities look out for themselves. This, however, is a shortsighted view to take. In the long run, what is good for the municipality is good for us. In this case, if the municipality gets its money at a lower rate, we find an additional source of supply of high grade securities and at the same time remove from the market a class of bonds which causes the investor more trouble than all municipal issues combined.

Unquestionably there are good safe special assessment bonds concerning the payment of which no question ever arises, and we need have no hesitation in recommending such issues; but the collectibility of the assessments should be so well assured that the payment of the bonds is as certain as though they were general obligations.

Of course it is impracticable to adopt this plan at present in states where the constitutional limit of indebtedness is so low that a law of this kind would be unworkable; but even constitutional provisions are not irrevocable, and in time it may be possible to secure in each of our states the adoption of legislation requiring the full faith and credit of the municipality to be pledged for the payment of every instrument denominated "Municipal Bond" and providing unequivocally for a sufficient tax levy to meet such obligations.

Mr. McNear: Does anyone care to discuss the subject? Then, we will go to the next one: "What should be the Ethical Relation between Bond Houses with Respect to Outstanding Contracts with Municipalities"— Mr. Dysart, of St. Louis.

Mr. Dysart (Wm. R. Compton Co., St. Louis): I think this subject is just about as dear to our hearts as the subject of what is joint account. I am going to take up what little time we have in this matter in getting views of the various members of the Association. Any views which I may have of my own will take, I think, about a minute and a half, not over two minutes. The determination of the question of the ethical relation between dealers with respect to outstanding contracts seems to me to resolve itself into the determination of what is a contract. I take it there is no difference of opinion, at least there should be none, with respect to the relation between dealers as to the existing contract. No dealer, and certainly no member of our Association, would deliberately attempt to interfere with the legitimate bona

fide contract and have it cancelled and repudiated. One who would stoop to such practices is outside the pale of our consideration. He is readily recognized as one of that class absolutely devoid of principle with which all business, unfortunately, has to deal, and he should be treated without consideration or respect; his methods should be promptly exposed and full publicity given to the character of his dealings; and without exception he should thereafter be treated as a common enemy, and known to every member of our Association; and he should be eliminated from the business. Not one of us should hesitate to denounce him publicly and it would not take long to get him away from his dishonest practice. But it is sometimes difficult to determine just when there is legitimate opportunity, and here is where the mischief comes in. There are many questions involved; and what may appear to one party to the agreement to be a perfectly legal contract may not appear so to the other, and in such cases a correct solution usually lies in determining just what the original understanding of the contracting parties really was. An agreement to purchase bonds subject to a satisfactory investigation to be made by the purchaser is perhaps the most common. In many instances no limit of time is given when the examination is to be made, and it is sometimes due, owing to the stress of circumstances. People become impatient over the delay and do not understand the cause of it, and thereupon it becomes very easy for some competitor to persuade the community, or official that the contract is terminated, and that they are free to engage elsewhere. The purchase of bonds subject to legality, and the delays incident to securing legal opinions results in innumerable cases of this kind, and it is no difficult matter to induce public officials to break the contract which in reality is just as binding as when first made. Care should be taken to get at the facts and ascertain beyond any question of doubt that the contractual relations are at an end. One can better afford to lose an issue of bonds than to lose the respect of his competitor and subject himself to the unpleasant notoriety of perhaps an unintentional violation of business ethics. I have often heard it said it is a case of dog eat dog in the bond buying business. I do not believe that is true. Aggressiveness is all that is necessary, but there is no occasion for use of dishonest practices, or to stoop to corrupt or

questionable practices in buying bonds. I know of no other line of business where a disposition to be unfair and dishonest is more quickly detected; and if the guilty ones are promptly exposed, and their methods given the publicity they deserve, you will soon be able to eliminate them fully. I know you hesitate to air your troubles, preferring to treat them as personal grievances; but I feel that that is the proper solution of the matter, and I believe we should not hesitate to apply the remedy. It is a duty we owe to ourselves, to each other, and to the investment public to expose or ride out dishonest competitors. If this Association were to create a board, or appoint a committee, and such cases were promptly reported to that board, a complaint could be investigated thoroughly, and if the accused found guilty, I am sure there would be no occasion for the many wilful charges as to ethical violation between bond dealers that frequently arise at the present time — and this in connection with the suggestion made in one of our reports that a committee of that sort be appointed by the Governors.

Now, I want to submit just three conditions, or three cases, and I would like to get the opinion of some of the members of the Association on that. I know that these three cases are ones that come up frequently and there is quite a difference of opinion as to what should be done under those particular circumstances. The first one is, should a pre-election agreement be recognized and respected where a bond house has in good faith contracted to purchase an issue of bonds for a public community prior to the election, agreeing to pay for the bonds if they are voted? Should a contract of that kind be considered or respected by other members of the Association?

Mr. McNear: Does anyone wish to discuss that subject? Such a contract has no legal standing, it is purely whether or not we recognize it from an ethical viewpoint.

Mr. Bullard: The second one is, if a municipality arbitrarily cancels a contract and offers the bonds to another house and with the other house, knowing that the former house has a contract for the issue, makes no effort to learn the conditions that exist or the views of the first house before they attempt to buy the bonds. In other words, if A buys bonds from Kansas City and later offers the bonds to B, who offers them without a contract,

George H. Taylor
E. H. Rollins & Sons, Chicago

Reamy Eugene Field
Field, Richards & Co., Cincinnati

J. Sheppard Smith
Mississippi Valley Trust Co.,
St. Louis

Charles L. Stacy
Stacy & Braun, Toledo

MEMBERS OF THE BOARD OF GOVERNORS

does B owe A anything? Should he attempt to find out what his attitude is before attempting to purchase these bonds?

The third is, does a joint account in the first sale, I mean by that, that four houses in joint account have bought St. Joseph, Missouri bonds, and a week or ten days or two weeks later, one of the members is approached by some other house to buy, is he at liberty to continue with the other house?

Mr. McNear: Does anyone have any remarks to make on any of these subjects?

Mr. Ross: Mr. Chairman, the two last questions we feel involve matters which, while they properly have no legal value, if they are properly handled, will make for a greater improvement among the bond houses. If there is any advantage whatever in this Association, it is in our keeping so well acquainted with just such instances as brought up here, and that we will consult with each other. In the event of trouble on the part of one member that a municipality should reject his contract, it certainly is the matter of fraternal benefit for any house to consult with him; and any case such as is suggested in the last question, where a man has a stated joint account, he has become wise of the cost and all of the ideas of the other members as to the price and other factors that the deal possibly makes. It seems to me quite correct that he should consult, if he is going into the deal at some later date, and he ought to go in with the same people, or if they are unwilling and he does not want to buy the bonds, he ought to stay out altogether. These are matters that make for bad following in the business, if these principles are not followed very carefully. Some regard being had to the ideas of the other house make for a great deal of good following, and smooth out the way of the buyer.

The President: The time seems to be up, gentlemen, for the further discussion of this subject. It is particularly interesting on the part of the joint account, but from experience I will recommend that everybody going into joint account thoroughly understand it before starting. [Laughter.] The next is a report of the Foreign Relations Committee.

REPORT OF COMMITTEE ON FOREIGN RELATIONS

The work of this Committee during the past year may be divided into two sections: (1) placing statistical information regarding American securities at the disposal of financial houses and investors in certain of the large European centers; and (2) securing reliable statistical information as to the finances of various foreign countries for the benefit of our Association members.

As mentioned in the reports of this Committee during the year, we have, through the co-operation of the publishers of various statistical books and services, been able with our limited appropriation to keep up the small statistical libraries previously established by the Association in the American Chamber of Commerce in Paris and in the Amsterdam, Berlin, and Vienna Stock Exchanges. The publications furnished include:

1. Standard Statistics Bureau's System of Bond and Stock Information Cards (to be kept up to date for one year)
2. The Corporation (or Moody's) Manuals
3. Moody's Analyses of Railroad and Public Service Securities

Realizing that under conditions existing during the past year there would in all probability sooner or later in this country be a greater interest in foreign securities, reliable information on which it is in many cases difficult to obtain, the Committee has attempted to begin to collect, for the benefit of the Association members, data on various foreign government finances and to file the same in the office of the Association in Chicago, with duplicates in the office of the secretary of the Committee in New York, these duplicates marked "Property of the Investment Bankers Association." The following publications are already on file:

London Times Books:

"Results of Public Companies"
"Prospectuses of Public Companies"
"Prospectuses of Public Companies, Vol. No. 47."
(The above books have been donated by the *London Times*.)

"The Stock Exchange Year Book — 1915," by Thomas Skinner
"The Forty-first Annual Report of the Council of the Corporation of Bondholders for 1914" (presented by the Secretary of the Committee)
"The Stock Exchange Weekly Official Intelligence"
"The Stock Exchange Year Book"
"The Statesmen's Year Book"

The Committee also addressed a letter to the Finance Ministers of various foreign countries, as indicated in the attached list and as set forth in detail in the report of the Committee to the July meeting of the Board of Governors. Briefly, this letter asked for official information in regard to the total debt, revenue, and per capita wealth of each country, together with latest regulations covering income and stamp taxes, particularly as affecting securities.

We are glad to report that there has been every evidence of a desire on the part of the Finance Ministers of the various Governments approached to co-operate with us in every respect, and we have already been able to forward to the office of the Association in Chicago considerable statistical matter, which is more particularly set forth in the table at the end of this report.

We believe this is a work which can profitably be followed up by future Committees on Foreign Relations, with the end in view that there shall be in the office of the Association for the benefit of all of our members reliable and up-to-date statistics on the financial affairs of all important foreign governments, including those in South America. Some of this information today is not available in this country, and much of it is not readily accessible to the average investment house. If in the future data of this character can be readily secured from the office of the Association, the service will without doubt be of value to many of our members and a great aid in enabling them to form an intelligent opinion as to the intrinsic merits of foreign securities which may be offered to them from time to time.

A brief summary as to the sales of American securities by Europe may be of interest:

As is well known, during the first months of the war, Europe was exceedingly anxious to sell American securities back to this country, and it was partly due to fear of indiscriminate unloading that the Exchanges throughout this country were closed for various periods. It was felt by most of our financial authorities that in view of the fact that the war came at a time when we owed tremendous amounts abroad, our financial system would not stand the strain of an urgent liquidation on the part of European holders of their American investments, and that therefore it was necessary to protect ourselves against the anticipated avalanche of European selling. After this first panic on the part of European investors, there seemed to be a reaction to the other extreme and it was seen that the danger of any indiscriminate "dumping" process could be disregarded to a large extent. It was a matter of considerable surprise to most people in this country after the opening of our Exchanges that the amount of European liquidation was kept to such small dimensions, and was carried on in an exceedingly orderly and leisurely manner.

After this period there came a time when, on account of the very heavy purchases of supplies and provisions in this country by the belligerent powers, the Exchanges moved strongly in favor of this country and thereby offered a very great inducement to foreign holders to sell their securities at prevailing prices, as the profits on the Exchange at which these trades were made in a great many cases were sufficient even at the prices then prevailing to enable holders to sell such securities at prices above those at which they had originally been purchased. Inasmuch as this country was practically the only one in the world where there was a free market for securities, and as foreign holders of our securities, on account of the foreign exchange situation, could liquidate at a profit, the volume of selling, particularly of gilt-edged bonds, steadily increased and has been going on in this manner for some time.

Even with the various inducements which have been offered to European investors, and with the direct appeals that have been made by the various foreign governments to investors to liquidate their holdings of American securities and reinvest the proceeds in government loans, there has been a decided inclination, on

the part of private investors especially, to hold on to the securities of the largest neutral country in the world. As an instance of the means which have been employed by foreign governments to induce selling of American securities, it may be of interest to remark that the Bank of England has been a steady buyer of the best class of American bonds at prices higher than those prevailing in this market; the securities thus purchased having been forwarded to New York either for selling or as a basis for possible credits. Another instance which may be of interest is the repurchase by the Rothschild group of some of the bonds of the Pennsylvania and St. Paul Systems originally sold in the French market and which were used by the Rothschild group as the basis of a large French credit in this market. The result is that, while the holdings of institutions abroad of American securities have been somewhat reduced, there still remains a very large amount of gilt-edged American securities abroad in the hands of private investors and to a certain extent in the hands of institutions also. Every means should be taken by American bankers to disseminate in Europe information regarding both general conditions in this country and specific conditions surrounding particular securities. Such information intelligently given will no doubt have a very material effect upon the amount of foreign liquidation of American securities which may occur in the future.

LIST OF FINANCE MINISTERS TO WHOM THIS LETTER HAS BEEN ADDRESSED

Reginald McKenna	Chancellor of the Exchequer	London, England
M. Ribot	Minister of Finance	Paris, France
Dr. Karl Helfferich	Imperial Treasury	Berlin, Germany
M. Bark	State Councillor	Petrograd, Russia
Signor Danco	Minister of Finance	Rome, Italy
Don Gabino Bugallal	Minister of Finance	Madrid, Spain
Senhor Xavier Brito	Minister of Finance	Lisbon, Portugal
Baron Engel	Minister of Finance	Vienna, Austria
John Telerzky	Minister of Finance	Budapest, Austria
M. Protopapadakis	Minister of Finance	Athens, Greece
M. Toncheff	Minister of Finance	Sofia, Bulgaria
E. Costinesco	Minister of Finance	Bucharest, Roumania
Talaat Bey	Minister of Finance	Constantinople, Turkey
Dr. L. Patchu	Minister of Finance	Belgrade, Servia
Risto Popovitch	Minister of Finance	Cettinje, Montenegro
Herrn Vinnersten	Minister of Finance	Stockholm, Sweden
M. Omholt	Minister of Finance	Christiania, Norway
	Federal Council	Bern, Switzerland
Dr. M. W. F. Treub	Minister of Finance	The Hague, Holland
Eduard Brandes	Minister of Finance	Copenhagen, Denmark
Reijiro Wakatsuki	Minister of Finance	Tokyo, Japan
Chou Tzu-ch'i	Minister of Finance	Peking, China
Rt. Hon. A. Fisher, P. C.	Minister of Finance and Treasurer	Melbourne, Australia
Hon. F. Allen	Minister of Finance	Wellington, N. Z.

Sir David de Villers Graaff...Minister of Finance........Pretoria, So. Africa
Secretary of State for India
(British India)..................................London, England
Dr. Ernesto Bosch..........Minister of Foreign Affairs..Buenos Aires, Argentine
D. Enrigue Villegas.........Minister of Foreign Affairs..Santiago, Chili
Dr. Lauro Mueller..........Minister of Foreign Affairs..Rio de Janeiro
D. Emilio Barbaroux.......Minister of Foreign Affairs..Montevideo, Uraguay
D. Antolin Frala...........Minister of Foreign Affairs..Asuncion, Paraguay
D. Francisco Tuleda y Varela Minister of Foreign Affairs..Lima, Peru
D. Jose C. Arteaga.........Minister of Foreign Affairs..Sucre, Bolivia
D. C. Rosales..............Minister of Finance........Bogota, Columbia
D. Manuel A. Matos........Minister of Foreign Affairs..Caracas, Ven.
D. Aristides Arjona.........Minister of Finance........Panama, Panama
D. Manuel Castro Querada..Minister of Foreign Affairs..San Jose, Costa Rico
Dr. Modesto A. Penaherrera.Minister of Interior........Quito, Ecuador
Dr. Francisco Martinez
Suarez..................Minister of Foreign Affairs .San Salvador, S. S.
M. J. L. Leger.............Minister of Foreign Affairs..Port-au-Prince, Haiti
D. Cosma de la Torrienta...Secretary of State.........Habana, Cuba
D. Roman O. Lavaton......Minister of Foreign Affairs
San Domingo, San Domingo
Hon. W. T. White..........Minister of Finance........Ottawa, Canada
D. Luis Toledo Herrarte.....Minister of Foreign Affairs..Guatemala, Guatem ala

PUBLICATIONS, DOCUMENTS, LETTERS, ETC., FORWARDED TO CHICAGO OFFICE SINCE JULY 31, 1915

Manual of Emergency Legislation in Britain.
Jaarcijfers Voor Het
Koninkrihk der Nederlanden
Rijk in Europa
1913
Bijdragen
tot de
STATISTIEK VAN NEDERLAND
Nieuwe Volgreeks
No. 217

Statement which we received from the Finance Department of the Dominion of Canada.

Documents received from French Minister of Finance.

Additional data received from Minister of Finance of France and original letter from Minister of Finance, original and translation.

Letter received from Swiss Minister of Finance, original and translation.

Letter received from the Kingdom of Norway.

Letter received from H. P. Hamilton from His Majesty's Treasury Department.

One copy of account of public departments of France for the year 1913.

Three statements concerning French income on stamp tax, transfer tax, and revenue tax on securities. These statements accompanied by notes about conditions under which taxes are collected.

Statement concerning French income of the "tax of 5%" on revenues of foreign securities not subscribed and securities of foreign states collected in Paris.

Letter from Minister of the Interior of the Republic of Ecuador.

Letter from Mr. R. Amieta Rossi, Minister of Foreign Relations of the Republic of San Salvador, together with a book giving the financial condition of the Republic of San Salvador for the year 1914, and various copies of the Financial Journal of the Republic of San Salvador.

Letter from the Minister of Foreign Relations of the Republic of Guatemala, together with a book for the year 1914 giving the financial condition of the Republic of Guatemala.

Book entitled "Finance Accounts of the United Kingdom of Great Britain and Ireland for the Financial Year 1914–1915," printed under the authority of His Majesty's Stationery Office.

Book entitled "Statistical Abstract for the United Kingdom in each of the last Fifteen Years from 1899 to 1913," printed under the authority of His Majesty's Stationery Office.

Pamphlet entitled "National Debt" — Return showing (1) The Aggregate Gross Liabilities of the State as represented by the Nominal Funded Debt, Estimated Capital Liability in respect of Terminable Annuities, Unfunded Debt and other Liabilities in respect of Debt, the Estimated Assets and the Exchequer Balances at the close of each financial year from 1835–36 to 1914–15, both inclusive, and (2) the Gross and Net Expenditure charged annually during that period against the public revenue on account of the National Debt, and other payments connected with Capital Liabilities.

Financial Statement of Great Britain 1915–16.

Complete Set of the War Prospectuses issued by Great Britain from the beginning of the war to date.

ERASTUS W. BULKLEY, *Chairman.*

The President: I will now call upon Dr. Pratt to address the Convention on foreign relations.

FOREIGN INVESTMENTS

DR. EDWARD EWING PRATT
Chief, Bureau of Foreign and Domestic Commerce, Department of Commerce, Washington, D. C.

As a result of the great European war, we face a series of changes and new facts in the economic and financial world. We observe the increasing importance and independence of the United States as an industrial nation, exporting its products to all parts of the world. We observe that the United States has suddenly attained a favorable balance of trade and credit, and has converted her position as a borrower in the world's markets into that of a lender. We observe the increasing importance and independence of New York as a financial center. We observe the increasing use of the dollar as a medium of international payment. As lenders, therefore, in the international market it behooves us to study the offerings of foreign investments which are spread before us.

Before, however, detailing some of the more impressive facts as to foreign investments, let us examine a little more closely this credit balance which is piling up in our favor and which has already made us a capitalist nation on current account and is rapidly reducing our net capital obligations to foreign countries.

The excess of our exports over imports have gone forward by leaps and bounds during the past few months. The accompanying tables (A and B) indicate the growth of this excess, by years from 1900 to 1915, and by months from January, 1914, to August, 1915.

In spite of the fact that during August, September, and October our foreign trade languished, the excess of our exports over imports for the last fiscal year was greater by $350,000,000 than ever before. For the last six months of the fiscal year 1915 the excess of exports accrued at the yearly rate of $1,940,000,000. If we can accept the meagre figures of July and August as a criterion and if the average of those months is maintained throughout the year, the excess of exports over imports will amount to not less than $1,464,000,000 for the fiscal year 1915–16.

But this is not the true balance of trade or the true credit balance. We must subtract such items as our interest charges, payable abroad, the expenditures of American tourists, the remittances of money sent abroad to friends and relatives, the freights we pay to ocean steamships owned by other countries, and

TABLE A

MERCHANDISE IMPORTED AND EXPORTED, AND THE ANNUAL EXCESS OF EXPORTS OVER IMPORTS — 1900 TO 1915

Year Ended June 30	Exports	Imports	Excess of Exports Over Imports
1900	$1,394,483,082	$ 849,941,184	$ 544,541,898
1901	1,487,764,991	823,172,165	664,592,826
1902	1,381,719,401	903,320,948	478,398,453
1903	1,420,141,679	1,025,719,237	394,422,442
1904	1,460,827,271	991,087,371	469,739,900
1905	1,518,561,666	1,117,513,071	401,048,595
1906	1,743,864,500	1,226,562,446	517,302,054
1907	1,880,851,078	1,434,421,425	446,429,653
1908	1,860,773,346	1,194,341,792	666,431,554
1909	1,663,011,104	1,311,920,224	351,090,880
1910	1,744,984,720	1,556,947,430	188,037,290
1911	2,049,320,199	1,527,226,105	522,094,094
1912	2,204,322,409	1,653,264,934	551,057,475
1913	2,465,884,149	1,813,008,234	652,875,915
1914	2,364,579,148	1,893,925,657	470,653,491
1915	2,768,589,340	1,674,169,740	1,094,419,600

TABLE B

MERCHANDISE IMPORTED AND EXPORTED AND THE MONTHLY EXCESS OF EXPORTS OR IMPORTS, JANUARY, 1914, TO AUGUST, 1915

Months	Imports	Exports	Excess of Exports	Excess of Imports
1914 January	$154,742,923	$204,066,603	$ 49,323,680	....
February	148,044,776	173,920,145	25,875,369	....
March	182,555,304	187,499,234	4,943,930	....
April	173,762,114	162,552,570	....	11,209,544
May	164,281,515	161,732,619	....	2,548,896
June	157,529,450	157,072,044	....	457,406
July	159,677,291	154,138,947	....	5,538,344
August	129,767,890	110,367,494	....	19,400,396
September	139,710,611	156,052,333	16,341,722	....
October	138,080,520	194,711,170	56,630,650	....
November	126,467,062	205,878,333	79,411,271	....
December	114,656,545	245,632,558	130,976,013	....
1915 January	122,148,317	267,879,313	145,730,996	....
February	125,123,391	299,805,869	174,682,478	....
March	157,982,016	296,611,852	138,629,836	....
April	160,576,106	294,745,913	134,169,807	....
May	142,284,851	274,218,142	131,933,291	....
June	157,695,140	268,547,416	110,852,276	....
July	143,244,737	268,974,610	125,729,873	....
August (estimated)	142,000,000	260,000,000	118,000,000	....

the relief which we have sent abroad for the stricken countries of Europe. These payments, even at present reduced as some of them are, amount to not less than $500,000,000 per annum. The total excess of exports over imports, as estimated on the basis of the last few months, indicate a total for the fiscal year 1915–16 of not less than $1,400,000,000. These figures indicate that we have created assets abroad amounting to at least $900,000,000 and (it may be argued that) we must invest that amount abroad if we are to keep the exchange rates anywhere near normal. Only the slightest tax on our domestic profits will be necessary in order to considerably enlarge the amount of our exports of capital.

It is proper for us to consider at this point whether or not this is a purely temporary situation and also whether or not we are likely to be able to continue our volume of foreign trade and the large balances in our favor which will furnish the wherewithal for investment. The essential question involved is whether we will be able to permanently retain the foreign markets which we are now obtaining. Our progress has been noteworthy, especially in South America, where our trade has greatly increased in the last few months.

TABLE C

MONTHLY EXPORTS FROM THE UNITED STATES TO SOUTH AMERICA

Months	1914 (Millions of Dollars)	1915	Difference	Per Cent Dec.	Inc.
January	8.7	7.0	Dec. 1.7	19.3	....
February	8.5	6.5	Dec. 2.0	23.1	....
March	8.4	10.5	Inc. 2.1	....	25.6
April	9.0	10.8	Inc. 1.8	....	20.7
May	10.2	12.0	Inc. 1.8	....	17.4
June	7.6	13.7	Inc. 6.1	....	81.5
July	7.8	12.3	Inc. 4.5	....	57.6

The whole problem rests squarely on the costs of production, whether we will be more or less able to meet European costs after the war. It is important in discussing this point to consider such important facts as interest, wages, and taxes. It can scarcely be argued that taxes in Europe will be less after the war. It is evident that the tremendous debts that are being piled up will have to be carried and paid off during the next 50 to 100 years. Labor, at any rate, able-bodied efficient labor, is likely to be scarce at the end of the war, because the best mechanics of Europe are

now in the front ranks of the fighting armies. It has been the universal experience that following the great wars of the last century that interest rates and wages have been higher following each war. It seems to me logical that the vast destruction of capital, which is going on in Europe and the diversion of capital from productive uses, will make it scarce in quantity and great in demand at the close of hostilities. The case is very well put in an editorial which appeared recently in the Journal of Commerce (issue for Tuesday, September 14th), as follows:

"Those foreign countries are being impoverished in capital and in men, their manufacturing industries are being seriously impaired and they are being heavily burdened with debt and taxation. Is that going to make them such formidable antagonists as soon as they stop fighting? Our manufacturers have an unusual opportunity of showing what there is in them and what they can do when the markets of the rest of the world, as well as those of the United States, are open again. * * * Are they afraid of the crippled and broken and exhausted competitors of Europe? * * * It will be a good while before that foreign tide rises to overwhelm them and they had better watch and work and see if they cannot stand against it."

The best available statistics seem to indicate that the sum total of our indebtedness to European countries amounts to $6,500,000,000. It is said that probably our holdings of foreign securities amount to not less than $1,500,000,000. This would leave our net indebtedness to the rest of the world at something like $5,000,000,000. Recent inquiries seem to indicate that this figure, which has been commonly accepted, is too large and that the actual amount may be less by one or two billion dollars. The exact sum is unimportant but its distribution is important. Sir George Paish estimated the distribution to be as follows:

Paish's Estimate (about 1910).
(Report of the Nat. Monetary Commission, Vol. XX, pp. 174–5.)

Great Britain	$3,500,000,000
Germany	1,000,000,000
Holland	750,000,000
France	620,000,000
Belgium, Switzerland, and other European countries	130,000,000
Floating debt	500,000,000
Total	$6,500,000,000

Mr. C. K. Hobson, in his recent work on the subject of export capital, estimates the amounts to have been in 1899, as follows:

England	$2,500,000,000
Holland	240,000,000
Germany	200,000,000
Switzerland	75,000,000
France	50,000,000
Other European countries	35,000,000
Total	$3,100,000,000

(The Export of Capital — Hobson's, page 154.)

It is not to be expected that the United States will first pay off all her foreign indebtedness and then, and not until then, embark on a career as a capitalist nation. It is quite common for nations, as with individuals, to be at the same time creditor and borrower. This is especially true in view of the great present desirability of our securities.

The United States has thus become a capitalist nation, not only theoretically, but practically. Since the outbreak of the great European war, the United States has made formal loans to foreign countries to the amount of $257,090,000.

TABLE D

LOANS RAISED IN NEW YORK BY FOREIGN COUNTRIES FROM JULY 4, 1914, TO SEPTEMBER 15, 1915*

CANADA:

Canadian Pacific Ry	Equipment trust note	$ 12,690,000
Montreal 5%	3 year debs	6,900,000
British Columbia	1 year 4½% treasury bills	2,700,000
Canadian Northern Ry	5% equipment notes	2,000,000
" " "	5% notes	11,500,000
Government	5% gold notes, 1 and 2 years	45,000,000
Toronto Harbor	4½% bonds	1,000,000
Toronto Railway	6%	1,500,000
Toronto, City of	5½% deb. notes	3,000,000

*This table is not expected to be exhaustive. There are of course many issues of securities which are privately made and therefore are not publicly recorded. The total is therefore less by a considerable amount than the actual sum total of loans made abroad during the period under discussion.

Alberta, Univ. of	4½% 10 year debs.	1,000,000
Alberta, Prov. of	5% gold deb. bonds	4,000,000
Ontario, Prov. of	A 9 mo. loan at 3⅛%	2,000,000
Ottawa, City of	5% 1 year notes	1,000,000
Manitoba, Prov. of	5% 5 year debs	5,475,000
New Brunswick, Prov. of	5% 5 year bonds	700,000
Sault Ste. Marie, City of	5% 30 year debs	500,000
Ontario, Prov. of	5% 5 year bonds	3,000,000
Calgary, City of	3 year treasury notes	2,000,000
Saskatchewan, Prov. of	5% 3 year bonds	2,500,000
" " "	Further issues arranged for	3,500,000
Montreal Trams & Power	2 year 6% notes	7,000,000
Winnipeg Electric Ry	1 and 2 year gold notes, 6%	1,500,000
Quebec, Prov. of	3 or 5 year 5% gold bonds	6,000,000
Quebec, City of	5's, 1920	2,125,000
Toronto, City of	4½% bonds, due Jan. 1, 1949 & 1955	2,500,000
	TOTAL, CANADA	$131,090,000
Argentina	6% notes	$ 15,000,000
"	6% treasury gold bonds	25,000,000
Bolivia	Negotiated with Nat. City Bank	1,000,000
France	Notes	10,000,000
"	5% bonds	30,000,000
Germany	5% treasury notes, 9 mo.	10,000,000
Greece	Negotiated with American capitalists.	7,000,000
Norway	6% notes	3,000,000
Republic of Panama	30 year 5's	3,000,000
Russia	Negotiated with private banking house	2,000,000
Sweden	6% treasury notes	5,000,000
Switzerland	1-3-5 year 5% notes	15,000,000
	GRAND TOTAL LOANS	$257,090,000

TABLE E

LOANS RAISED IN NEW YORK FROM JULY 1, 1914, TO SEPTEMBER 15, 1915

SUMMARY

CANADA	$131,090,000
LATIN AMERICA	44,000,000
EUROPE	82,000,000
TOTAL	$257,090,000

This large figure does not, however, express the sum total of all our loans to foreign countries during the last few months. The

CHALLEN R. PARKER
Anglo & London Paris National Bank, San Francisco

BARRETT WENDELL, JR.,
Lee, Higginson & Co., Boston

SAMUEL L. FULLER
Kissel, Kinnicutt & Co., New York

WILLIAM WEST
Henry & West, Philadelphia

MEMBERS OF THE BOARD OF GOVERNORS

rapidity and volume of recent European purchases in this country have not permitted the floating of formal loans. Instead, credits have been organized here on behalf of foreign purchasers and payments for merchandise have been made against these credits, many of which have been bank credits. The total amount of such credits cannot, of course, be given with accuracy, but it is likely that they exceed $250,000,000.

Up to the present year, New York and the United States have been only on the outer fringe of the world of international finance. There have been a few foreign loans floated in New York,— a few loans to Canada, Mexico, Central and South America, and Japan.

The investments of this character made in New York prior to the European war are insignificant when compared with the scale of operations during the last few months.

It may be worth while to look back for a few centuries and to note briefly the development and localization of the financial centers of the world. It may be worth while to call your attention to the fact that London's prestige as a financial center is just one hundred years old. And that London wrested the prestige of the world's financial center from Amsterdam in a few short years of war.

The origin from which foreign investment has sprung may be located in trade, and the first foreign investors were merchants. Gradually, however, the business of foreign investment has become differentiated from the general business of exchange. In the first place, some merchants confined their attention more closely to banking and money-lending. The requirements of princes, and later of states, provinces, municipalities, and the vast field of demand which appeared with the growth of private and corporate forms of capitalistic enterprise, all assisted the process by which finance became distinguished from trade. On the other hand, an increase in the number and importance of wealth-owners outside the ranks of merchants — men who were willing to lend their money out for safe-keeping or sought to make a profit by depositing it with those who could use it productively — swelled the business of those whose function was to bring the supply of capital into touch with the demand for it. This process, which began in the Middle Ages, hastened its pace in the Nine-

teenth Century, and we now see a highly perfected mechanism whose chief aim is to promote and facilitate the borrowing and lending of capital. The financier and company promoter, banks, stock exchanges, and even the financial press assist in this process.

The center from which financial energy has spread moved gradually with the westward and northward movement of economic power and civilization. It was located early in northern Italy, in Venice, then passed for a time to Spain and Portugal, only to move on to the low countries — to Antwerp and Amsterdam. And the last of these places became in the course of time the first financial center in Europe. British foreign investment developed more slowly, and, although British subjects owned property in the West Indies and the American Colonies and in India, there was perhaps in the Eighteenth Century more Dutch capital invested in Great Britain than there was British capital invested in all foreign countries.

But owing to the industrial revolution which began during that century, British wealth and capital expanded at a rapid rate, and the Napoleonic war marked at once the overthrow of Amsterdam as the financial center of the world and the rise of London to a position of predominance. It is true that the demands upon Great Britain for a time drained the market dry. The advent of peace soon left the outward flow from London greater than ever before. For thirty years or more Great Britain alone was able to supply large amounts of capital for the development of other countries. British capital flowed east and west to Europe and America, financing governments, developing the means of transportation, and performing the spade-work of modern economic organization. Capital was accumulated and spread out eastwards into Russia, Austria, Turkey, and Italy. At the same time capital from the more developed parts of this country was spread incessantly westwards with the migration of population. Toward the close of the century our own capital began to flow northward into Canada and southward into Central and South America. This very development of other financial centers of importance assisted the widening of the geographical field of British investments. London found itself squeezed more and more between the European financial mechanisms and the New York financial market; hence,

we find British capital pushing its way to India, to Australia, to Africa, to South America, and to Canada.

With its supremacy as bullion broker and arbiter of credit, as disposer of cash for short periods and lender of capital to foreign and colonial borrowers, it is no wonder that London through its stock exchange should provide the world's principal market in foreign securities. The London stock exchange list of foreign securities has no rival. Hardly a country, from the gilt-edged Rentes of France to the comparatively worthless paper of indigent and defaulting small countries, whose stocks are not dealt in freely from day to day by the leading jobbers in London's market.

We are getting accustomed nowadays to hearing New York spoken of as the financial center of the world. Probably most of us would characterize this as somewhat too optimistic. It is not too much to say that the tremendous volume of foreign trade and the supremacy of London as the market for international securities depend mainly upon British exports of capital. Thus London holds a great part of the external debt of Japan, and the price of Japanese bonds depends therefore mainly upon London's judgment of Japan's financial strength at any given time. Again, the great Argentine railroads are British companies. The head offices are in London, and London is the principal market for their bonds and shares. The same thing is true to a considerable extent of the external debt of the Argentine Government. British investments in Argentine — government debts, railways, land companies, ranches, etc.— run to several hundred millions sterling. Smaller, but still important, are the British holdings in Brazil, Chile, Peru, and Mexico.

London has been the pre-eminent financial market of the world; and annual savings of Britain, which have gone into foreign and colonial investments, reached just before the war the annual sum of not much less than two hundred millions sterling, or the equivalent of \$1,000,000,000. The average amount of French capital going abroad is probably not over \$250,000,000. Holland and Belgium have contributed freely. Germany has contributed considerable amounts, in view of the need of her capital at home for domestic development. And, of course, the United States has borrowed more than she exported.

Among the continental markets for foreign securities, Paris

stands easily first in power and resources. It is the great market for Russian bonds. It holds most of the Spanish, Portuguese, and Turkish debt, and has a considerable amount of capital invested in Egypt, Tunis, Roumania, Greece, and South America. In fact, Paris is the financier-in-chief to Russia, Spain, and Turkey. It has been estimated that not less than $6,500,000,000 of foreign securities are held in France. This figure compares with Sir George Paish's estimate of British holdings abroad of $17,500,000,000.

Berlin and Germany are of next importance in the world's international finance markets. A very large amount of German capital is employed outside of Germany, particularly in Russia, Scandinavia, Italy, the low countries, and South America. The total amount of German capital so employed has been estimated at from $2,500,000,000 to $5,000,000,000. Amsterdam and Brussels, as well as Antwerp and Hamburg, are small but nevertheless important financial centers. The importance of Hamburg in this field was noted after the severe financial crisis of 1907, which particularly affected Hamburg, and its results were evident in the number of failures in Copenhagen, Stockholm, Helsingfors, and the old Hanseatic towns.

Russia is unimportant in the financial markets of the world. Russia, like ourselves, has been a borrower of capital and is likely to continue as a borrower of capital. So chary of their capital resources are the Russians, that the Russian *birsha*, or bourse, is prohibited from dealing in non-Russian securities.

The other financial centers of the world are comparatively unimportant because they are located in borrowing countries. Spain and Italy have recently experienced considerable increases in prosperity, and their securities have advanced in value. More important are the powers of the Far East — Japan and China. Here, again, both countries are primarily borrowers of capital, and are not seriously to be considered among the money markets of the world.

TABLE F

ISSUES OF CAPITAL IN THE UNITED KINGDOM, FRANCE, AND GERMANY

	United Kingdom				France				Germany			
	Million Dollars		Per Cent		Million Dollars		Per Cent		Million Dollars		Per Cent	
Year	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
1909	91	797	10.2	89.8	345	484	41.6	58.4	684	85	88.9	11.1
1910	293	1,008	22.5	77.5	171	912	15.8	84.2	514	130	79.9	20.1
1911	127	806	13.6	86.4	157	749	17.4	82.6	464	105	81.4	18.6
1912	221	805	21.5	78.5	378	595	38.9	61.1	517	61	89.5	10.5
1913	175	781	19.3	80.7	419	532	44.0	56.0	431	149	74.4	25.6
Total	907	4,197	17.8	82.2	1,470	3,272	3.10	69.0	2,610	530	83.1	16.9
1914....	1,773	721	71.4	28.9	542	433	55.6	44.4	1,473	84	94.6	5.4

For previous years, see Becque, p. 21, France;
p. 23, Germany;
p. 11, United Kingdom. (See book marks.)

New York has never been an international financial center. British consols, German and Russian bonds, French rentes, are unquoted for the very good reason that they are not wanted. There is no market for them. Even the New York railway market is purely a domestic one, with the exception of lines like the Canadian Pacific, or the Mexican group, which connect with our own systems.

The names of foreign securities which are eagerly sought in Europe are unknown in the United States. Let us make a practical demonstration. I will read a list of foreign securities and I would like to have you investment bankers of the United States think of their qualities as investment propositions, their geographical locations, and their approximate valuations.

RAILWAYS

Antofagasta (Chile) and Bolivia Railway Co., Limited.

Authorized and Issued Capital, $29,000,000 — one third each preference, preferred ordinary and deferred ordinary.

Dividends (per cent) deferred ordinary stock, 1909–10, 7½; 1911, 7½ and bonus of 3; 1914, 2½ (interim), etc.

Leopoldina Railway Co., Limited. The company's lines serve a district north and northeast of Rio de Janeiro. Total length, 1,786 miles.

Authorized Capital, $47,900,000. Issued $47,300,000.

DIVIDENDS on ordinary stock (per cent)— 1909, 3½; 1910, 3½; 1911, 2; 1912, 4; 1913, 4¼.

MOGYANA RAILWAYS AND NAVIGATION CO. Serves district north of Campinas, Brazil, 1728 miles.

AUTHORIZED AND ISSUED CAPITAL, about $25,000,000.

DIVIDENDS, 1909–12, 10; 1913, 10; 1914 (interim) 5 (actual).

TOLTAL RAILWAY CO., LIMITED. 184 miles from seaport of Toltal (Chile) to Refresco de Cachiyuyal, in the nitrate grounds of Otocama, etc.

AUTHORIZED CAPITAL, $4,866,500. Issued, $4,380,000.

DIVIDENDS (per cent), 1909–10 and 1910–11, 7 and bonus of 2; 1911–12, 7 and bonus of 2 and bonus of 20 in shares of reserve fund; 1912–13, 9; 1913–14, 6.

MINES

RIO TINTO COMPANY, LIMITED. Company owns 22,000 acres of freehold copper and sulphur-mining property in the province of Huelva, south of Spain.

AUTHORIZED AND ISSUED CAPITAL, $17,000,000.

DIVIDENDS (per cent) on ordinary shares, for 1910, 50; 1911, 52½; 1912, 90; 1913, 25; 1914, 35.

(This is well known but chief operative interest is in Europe.)

MT. LYELL MINING AND RAILWAY CO., LIMITED. Victoria, New South Wales. Owns copper, silver, and gold mining and other leases in Tasmania, etc.

AUTHORIZED CAPITAL, $6,300,000 in £18 shares. Issued, $6,200,000.

DIVIDENDS (per cent), 1910, 12½ and bonus of 2½; 1911 to 1913, 6¼; 1914, 5 (in June).

NEW JAGERFONTEIN, MINING AND EXPLORATION COMPANY, LIMITED. Kimberly, South Africa. Property consists of diamond mine and farm, etc.

AUTHORIZED CAPITAL, $4,866,500, in £1 ordinary shares. Issued, £850,000.

DIVIDENDS (per cent), during 1910 and 1911, 60; 1912, 40; 1913, 50; 1914, 12½ (in April).

Prices marked in "Official List" in 1914 — Highest, 5½; lowest, $3\frac{9}{16}$.

New Kleinfontein Company, Limited. Johannesburg, South Africa. Property consists of 1805 gold claims, etc.

Authorized Capital, $6,326,000. Issued, $5,600,000 in £1 shares, fully paid.

Dividends (per cent), during 1910, 25; 1911, 20; 1912, 15; 1913, 5; 1914, 12½; 1915, 5 (in February).

New Modderfontein Gold Mining Company, Limited. Johannesburg, South Africa. Property consists of mining claims, water rights, freehold, etc.

Authorized and Issued Capital, $6,800,000, in shares of £4, fully paid.

Dividends (per cent), during 1910, 12½; 1911, 21¼; 1912, 25; 1913, 30; 1915, 15 (in February).

TEA, COFFEE AND RUBBER COMPANIES

Consolidated Tea and Lands Co., Limited. Glasgow. Company owns estates in Sylhet, Assam, Dooars, Darjeeling, and Ceylon. Cultivated area (tea, cocoanuts, rubber, and sisal), 34,438 acres.

Authorized and Issued Capital, $9,733,000, in 60,000 ordinary, 100,000 first preference and 40,000 second preference shares of £10, all fully paid. First and second preference shares are respectively entitled to cumulative dividends of 5 per cent and 7 per cent.

Dividends (per cent), 1910, 15; 1911–12, 13; 1912–13, 17½.

Prices marked in "Official List" in 1914: Ordinary shares — highest, 16⅜; lowest, 14¾. First preference shares — highest, $10\frac{3}{16}$; lowest, $9\frac{11}{16}$. Second preference shares — highest, 11½; lowest, 11.

Malacca Rubber Plantations, Limited. Malacca. Company owns estates in Malacca. Total area about 24,717 acres; cultivated (rubber), about 15,400 acres.

Authorized Capital, $4,886,500, in 885,000 ordinary and 115,000 preference shares of £1. Issued, $1,722,000 in 238,964 ordinary and 115,000 preference shares.

Dividends (per cent, free of income tax), ordinary shares, for 1909 and 1910, 10; 1911, 40; 1912, 75; 1913, 25 (paid in April).

The virility of German capital in exploiting foreign markets is well exemplified in the case of Russia. Russia, like all countries of the world, has been largely dependent upon Germany in the chemical industry. In 1897 there were but three German chemical companies with a capital of $1,200,000 in Russia. In 1913 there were fourteen companies with a capital of $9,500,000. The three principal companies were:

1. The German Aniline Products Company, established in 1873, paying dividends of 23 per cent in 1913, and whose shares were quoted at 369 in 1909 and at 457 in 1913.
2. The Baden Aniline and Soda Works, established in 1865, paying dividends of 28 per cent in 1913, and whose shares were quoted at 454 in 1909 and at 529 in 1913.
3. Frederich Beyer & Company, established in 1881, paying dividends of 28 per cent in 1913, and whose shares were quoted at 484 in 1909 and at 551 in 1913.

In the period from 1876 to 1900, six German coal companies, with a capital of $15,600,000, were established in Russia. German capitalists are interested in twenty Russian street railway systems with a share capital of $17,800,000 and a bonded indebtedness of $19,000,000. Prior to the war, German bankers were interested in nine petroleum companies, established during the years 1879 to 1913 with a total capital of $32,000,000.

Naturally, investors in this country are more interested in Canadian securities than in the securities of any other foreign country. We scarcely think of Canada as a foreign country. The investors of the United States have invested considerable sums of money in Canada, and, next to Great Britain, hold the largest amount of Canadian securities. It was estimated in 1911 that British investments in Canada amounted to $1,860,000,000. That American investments there amounted to $417,000,000, and that other foreign investments amounted to not far from $140,000,000, making a total of $2,417,000,000 invested in Canada.

Those who are apt to discourage foreign investments on the grounds that our funds find better opportunities at home will have some difficulty in explaining the attractiveness of Canadian investments. The reason is simple. Canada, on the whole, is sound, prosperous, and largely undeveloped. She needs our capital just as our own great western country needs capital, and we

are supplying it in considerable quantities. In spite of the large amounts of money on deposit in New York banks, Canadian investments seem to center more naturally in Philadelphia and Boston, and many of the most important Canadian securities until the outbreak of the European war were floated in those centers.

There are certain types of foreign investments which are almost unknown to American investors and which would probably not find great favor in the eyes of the American investing public. I refer particularly to those vast development propositions into which has gone a tremendous amount of European and particularly British capital, and in which dividend results are not expected for many years. These securities are for nations of family builders and not for those who desire immediate and considerable returns. An example of such a proposition is the British South African Company, which was founded by Mr. Cecil Rhodes. This company operates in a vast territory of about one and a quarter million square miles, an area nearly one half the size of the United States. It includes Southern and Northern Rhodesia, the Transvaal, and the protectorates of Bechuanaland, Basutoland, and Swaziland. The value of these vast Rhodesian territories is no longer problematical. The mineral wealth and agricultural probabilities have been thoroughly tested and proved. The British South African Company has gone on pouring money into the country until their report for March, 1913, showed that approximately $37,500,000 had been invested there. The twenty-fifth anniversary of the founding of the company is approaching and not a single penny has been paid in dividends. It is not dividends that count in a case of this kind, but how firmly the foundations have been laid for future dividends. A railway system has been built across the Rhodesias and connected with the Transvaal and Cape Colony systems and with the Portuguese line running down to the Port of Beira. Roads have been built; public improvements inaugurated and completed; farms mapped out and settlers assisted to occupy them; towns and cities with all modern conveniences and advantages have arisen; and the civilization of the white man brought to the heart of the Dark Continent.

It is only through the investment of capital that foreign trade can be secured and held. If the United States is serious in her

desire to develop foreign trade, she must lend; she must invest; she must buy foreign securities. If the facts which I have already stated are even approximately true, the United States has no immediate choice other than to invest abroad. Her only choice lies in the exact location of those investments in foreign countries.

There are some interesting facts available on this subject showing how closely the exportation of capital is related to the exportation of goods, and mainly of manufactured goods, as the following table brings out.

TABLE G

EXPORTS OF CAPITAL AND MANUFACTURED GOODS

Countries	Years	Railway issues in London Dollars	Miles of railway constructed	Imports of Railway Materials: From the United Kingdom Dollars	Imports of Railway Materials: From All Countries Dollars	Class of Imports
Argentina	1901–11	432,822,000	9,326	89,270,000	153,857,000	Locomotives, railway materials, rails.
British India	1902–12	118,085,000	2,823	121,603,000	131,365,000	Railway plant and rolling stock.
Australia	1903–11	123,720,000	3,227	15,780,000	26,040,000	Iron and steel rails, etc.
South Africa	1906–11	37,812,000	2,070	2,481,000	5,056,000	Railway materials.
" "	1906–11	74,666,000	....	19,034,000	26,689,000	Mining machinery.
Canada	1901–11	367,733,000	9,143	9,096,000	23,599,000	Iron and steel railway bars and rails.
United States	1901–10	366,378,000	47,131 (9 yrs.)	384,000	5,362,000	Iron and steel railway bars.

It is probable that practically all of the British investments in India, South America, Australia, and elsewhere, are made in the form of manufactured goods of common consumption, such as textiles, railway supplies, machinery, boots and shoes, etc. It is equally certain that periods of large exportations of capital in Great Britain have been periods of little unemployment. The reason is not far to seek, for the workmen have been engaged in making the exports which paid for the investment.

The investing public of the United States is singularly unresponsive to issues of foreign securities. This is due probably to the fact that such issues have not been brought to their atten-

tion as steadily, as consistently, and as intelligently as have the issues of those securities which represent properties nearer home.

Those who are taking up the study of foreign investments should not expect the situation as regards international securities to be very bright just at present. Criticisms which in ordinary times might with justice be passed on a country or corporation which had failed to fulfil its obligations must be modified when through no fault of its own its trade is suddenly paralyzed and exchange operations are rendered impossible.

Considering the severity of the crisis, it is surprising that the losses have not been greater. It is particularly satisfactory to state that some of the Latin-American countries have shown a most honorable desire to maintain their credit under circumstances of exceptional difficulty.

Default in credit operations is gradually diminishing, perhaps on account of the wider recognition of the simple fact that it is most harmful to those who practice it. Default by provinces and other local bodies is more widely distributed. Municipal defaults are comparatively rare.

But there is no essential difference between the principles of investment at home and abroad. The same principles apply. The foreign security must be just as safe as the principle; it must have an equal or superior income yield; it must enjoy the same degree of marketability; the stability of its price must be the same; and finally, there must be an equal chance of appreciation in value.

In addition to these points, foreign securities have the additional advantage of geographic distribution. Adverse conditions which affect securities in Australia will probably be offset by highly prosperous conditions in Argentina, and so on. The geographic distribution of investments has much the same effect on the security and continuity of investment yield as the distribution of securities has between various types of securities and various industries. Variety is itself an added feature of safety and permanency of yield in an investment total.

Foreign securities are not safer than domestic. The mere fact that investments are scattered geographically does not make them *ipso facto* secure or trustworthy investments. The fact of geographic distribution equalizes and offsets the chance of unsteady income yield on account of local conditions.

In the judging of foreign securities, however, exactly the same principles apply as apply in the judging of domestic securities.

If there was ever a time when the people of the United States, particularly the investing public of the United States, should stop and consider the situation, that time is the present. We do not always realize that our best foreign customers are engaged in a campaign of mutual destruction; that their energies and their resources are being diminished. We are, at the present, experiencing in this country a sort of stimulus to our industries — at any rate, in certain lines — and our foreign trade is experiencing a certain extension; but it would be well for us to consider whether or not this extension of our industries is a solid one and whether the extension of our foreign trade indicates a permanent extension. There is no question in my mind but that with the cessation of hostilities in Europe and the withdrawal and cutting off of orders for supplies of war materials of various sorts, the United States will experience a serious reaction. Those features which just at the present are making for expansion will be cut off and unless there has been some real advance made in capturing the markets of the world which are unaffected primarily by the European war, our situation is likely to be a serious one.

In the face of this tremendous destruction of capital which is going on in Europe, it would seem that this is a time for the United States to save and for the people of the United States to curtail their expenditures which are in any way unnecessary and to invest those savings where they will do the greatest amount of good. Great Britain has made herself the foremost capital nation in the world, not because she made large profits, but rather because she saved large savings. It is out of savings and not profits that investments are made. If the United States is to become a great capitalist nation, the people of the United States must save. It is sometimes said that it is a man's first duty to save. If that be his first duty, it is certainly his second duty to so invest those savings that they will be of the greatest advantage to the commonwealth. Just at the present the investment of savings in foreign securities, in the securities of those countries which we hope to win for our foreign markets, will afford the greatest advantage to our commonwealth.

It is also worth while for us to stop and consider whether or not

Richard L. Morris
Kean, Taylor & Co., New York

Lynn H. Dinkins
Interstate Trust & Banking Co.,
New Orleans

George W. Hodges
Remick, Hodges & Co.,
New York City

MEMBERS OF THE BOARD OF GOVERNORS

in making our loans to the European nations and in making loans which are to be used almost wholly for destructive purposes is an economically sound principle for us to follow. Please do not misunderstand me. I am not criticizing or objecting to loans which are being made to the European countries. I am merely raising the query as to whether or not it is a sound economic principle for us, as a nation, to loan all of our money to our best customers to enable them to destroy one another, when we might at least be using a portion of that capital to develop those countries which, although now not our best customers, are likely to become very good customers. I realize perfectly that under the present circumstances it is not a question of whether we want to loan money to Europe or not. At present we have no alternative. We must loan money to Europe in order to keep our foreign trade moving and in order to permit us to realize the largest possibilities of the present situation. However, we should not lose sight of the fact that the undeveloped countries of South America, of Africa, of Australia, and of the Far East are ardently seeking capital with which not only to develop, but with which to keep the very wheels of commerce moving.

Let me suggest to you investment bankers, that you can make a very real contribution to the extension of American trade and the expansion of the United States as a world financial power, and at the same time put yourselves in the way of earning an honest penny, by organizing special departments for handling foreign securities for American investors. At present, most of the private banking and brokerage houses are able only in an incidental way to care for investment propositions which come from foreign countries. Each matter has then to be taken up and separately investigated, and becomes more difficult and expensive than it should. If, then, the foreign business were specialized, as is the domestic, certain firms would specialize in the securities of certain parts of the world. Foreign investments would thereby assume greater certainty in the market and would command better support among our investors.

Let me also suggest that the Bureau of Foreign and Domestic Commerce, especially through its commercial-attaché service, is at the disposal of the American investment bankers. The Bureau aims, especially, to bring forward information with reference to

foreign investment opportunities. The commercial attachés, of whom there are ten, stationed at London, Berlin, Paris, Petrograd, Shanghai, Melbourne, Buenos Aires, Rio de Janeiro, Santiago, and Lima are especially instructed to be on the lookout for opportunities for American capital, and to inform the Bureau at Washington at the very earliest possible moment. Even at the present time there are a number of propositions pending which indicate very clearly that this branch of our service is now important and will be in the future increasingly important. I am glad to place this service at your disposal and hope that you will let me know the kind of propositions in which you are most interested.

The work of capital in developing this country and intensifying the development in older countries is by no means finished. Gigantic sums are still required for railway construction in almost every part of the world. Water and gas works, electric lighting, telegraph, and tramways form another important group of enterprises which are constantly demanding fresh capital. All of these activities are conducted both by Government authorities — central and local — and by corporate bodies. In addition, there are mining concerns and plantations, land mortgage companies, banks, trust, insurance, and trading companies, all of which have figured prominently during the earlier periods of foreign investment. There is, however, a new element visible in the course of foreign investments during the past few years, namely, a tendency to invest in manufacturing and industrial concerns; and the movement is particularly noteworthy in the progress of British investments in North America, India, and Russia. Canadian cotton and textile companies, iron and steel works, and paper mills have absorbed a considerable amount of British capital and also a considerable amount of American capital. No inconsiderable portion of the United States Steel Corporation securities is held in England. In India jute mills have been largely financed by Scottish capitalists, and English companies are also at work in the cotton and engineering trades. In Russia a number of British companies are engaged in iron and engineering trades and in the chemical industries. The obstacles in the way of successful foreign investment in manufacturing are being gradually overcome, due, probably, to the ease of transportation, to the increasing size and stabil-

ity of manufacturing concerns, and the larger knowledge of foreign countries and their resources.

The demands for capital in parts of the world which are as yet undeveloped will grow rapidly from now on. The continent of Africa has scarcely been touched. The essential elements of Western European life are almost entirely lacking in China and in the greater part of the Russian Empire. Much remains to be done in South and Central America, Mexico, and Canada. We may look forward, it seems to me, for the increasing demand for capital in all parts of the world, and for the rapid development of those sections of it which are still undeveloped.

But where are these undeveloped countries to look for their supplies of capital? Great Britain has for some years past never invested less than $500,000,000 per annum in her Colonies and in foreign countries, and recently the amount has been in the neighborhood of $1,000,000,000. The yearly flow of French investments to other lands is estimated at from $400,000,000 to $500,000,000. Germany's foreign investments probably amount from $200,000,000 to $300,000,000 per annum, while Belgian and Dutch investments probably have amounted to not far from the same figures. These sources of capital will probably be closed for years to come. It is unthinkable that the disastrous effects upon the flow of capital which were seen after the Napoleonic wars, after our own Civil War, after the Franco-Prussian War, will not be repeated on an even larger scale after this, the greatest of all wars. The European channels for investment will be closed and it remains to the United States to take up this work of development and expansion. [Long applause.]

The President: I think that applause, Dr. Pratt, testifies the appreciation of this convention.

Mr. George B. Caldwell: I move a vote of thanks of the convention to Dr. Pratt, and that we have his paper printed by the Secretary's Office and circulated among our membership, otherwise there would be the difference between now and the time our annual report is printed. It is a very live subject, in which the whole country is interested.

(The motion was seconded.)

The President: You have heard the motion, all in favor say aye, contrary no. (The motion carried.)

rogue who vends worthless wares, the legislator entirely overlooks the harm he may do to a business, the importance of which to the welfare of the country is perhaps second to none.

One of the most important factors in the growth of the wealth of any nation is the efficiency with which its capital is employed. The development of the resources of a country is accomplished to a large extent through borrowed money. Large agencies of production and distribution such as industrial corporations, railroads, etc., usually have been built partly with capital supplied directly by the owners or stockholders, and partly with capital borrowed from those who have been willing to lend.

The investment banker is the agency through which unemployed capital becomes a productive force. He performs a double service. By finding profitable investments for those who have idle funds he contributes directly to the creation of wealth. The responsibilities of an investment banker are necessarily great: he is under obligation to invest the funds of his clients not only profitably but safely, and this is by no means an easy task. Broad experience, expert knowledge and sound judgment are requisite if he would succeed. Mistakes are sometimes made, but rare indeed have been the instances where bankers have deliberately taken advantage of their customers by selling inferior securities.

But how could the development of our resources be financed if the business of the investment banker were so impeded, embarrassed and harassed by a multiplicity of restrictive laws that the banker would be in doubt half the time whether or not he were lawfully complying with this statute or that? How could he direct capital toward those enterprises the expansion of which contributes directly to the increase in national wealth if he had to submit to the censorship of the officials of a dozen states or more every offering of securities he desired to make?

The blue sky legislation is only one example of a tendency in the political development of the past few years which is not without its dangers. We have had many laws, rulings, regulations of commissions, the result of which is likely to stifle the initiative power of invention and genius for efficient organization which hitherto had been almost the watchword of American commercial and industrial supremacy.

What would have been the incentive to develop the economical steam turbine, which has replaced the inefficient belted generator if from the first the profits of all utilities had been limited to a fixed return upon their invested capital? Should we have seen the great increase in the average trainload on our railroads, with the result that the expenditure of a given amount of money and effort accomplishes now almost twice what the expenditure of the same amount accomplished a few years ago, had it been foreseen that the more economically and efficiently a road is operated the more likely it is to be attacked for charging unreasonable rates?

A short time ago the chairman of an important Federal commission suggested that no one should be allowed to inherit more than $1,000,000, the excess above this amount to be appropriated by the Government.

What chance would there be of financing private enterprises if the amount annually available for investment were burdened with the necessity of absorbing the proceeds of all the estates which, under such a regime, the Government would

be compelled to liquidate? One can only marvel that such a suggestion was ever seriously propounded.

A greater discouragement to genuine public service through the productive use of wealth than these tendencies would be difficult to imagine, but they have been accepted with avidity by the unthinking in the name of reform and friendship for the people as a protection against the extortions of capital.

There is ground for encouragement, however, in the fact that the contentions of the extremists do not seem to attract the attention and support that were formerly accorded them. Some of the so-called advanced theories are already breaking down. Perhaps we shall come to the conclusion that after all moderation and conservatism are quite as conducive to our real welfare as are radicalism, paternalism and the like.

The Association in its legislative work has sought not to be reactionary. It offers no apology, however, for having sought to protect, to safeguard and to advance the business of investment banking, because it believes that no other business is more closely identified with the development of the country's wealth, resources, and prosperity.

Respectfully submitted,

ALLEN G. HOYT, *Chairman.*

Mr. Hoyt (continuing): I believe I am asked also to introduce a topic for discussion tonight.

One of the subjects to which the Legislative Committee has devoted considerable time is the Federal Income Tax Law. The ownership certificates which, by the regulations of the Treasury Department, are required to accompany all coupons when forwarded or presented for payment have not only greatly inconvenienced our clients, but have caused many of our members considerable expense for which they are not compensated.

The Legislative Committee has been asked to suggest some revision of the law, or other remedy which will eliminate the necessity for certificates, or at least prevent the questionable use of the names of bond buyers which come to fiscal agents of corporations as a result of them. The committee finds itself in need of suggestions as to how to deal with this problem, and we have asked Mr. James Martin, of Estabrook and Company in Chicago, to lead the discussion on this subject. I will call upon Mr. Martin if he is here.

Mr. Martin (Estabrook & Co., Chicago): From a talk which the special committee had with the Treasury officials at the time the duplicate coupon certificates were put into effect, I doubt very much if the present administration would allow of any

method of collection to be substituted for the present one. They assured us, however, that every safeguard was being made to prevent the names from going outside of the Government offices. As the law is very explicit on this point, I do not feel that we need have any worry from this source.

However, there have been instances of which we know, where trustees have deliberately used the names of bondholders which come into their hands in making bond offerings through their bond departments. In some cases the people themselves have come to the banker who sold the bonds to inquire how their names got out. In one particular case where the matter was followed up, the trustee upheld their action, but when a request was made to make same a matter of record here, they respectfully requested that it be omitted.

I am very glad to say, however, that after an investigation we find that practically all the trustees are doing their best to keep the names from the hands of others than those directly connected with the collection. It, therefore, gets down to the matter of honesty and as "To err is human," I presume there will always be some stealing of names as long as there are human beings.

The Government has given us one preventative through the use of substitute certificates and where the dealer can prevail upon his client to collect his coupons through him, it is, of course, the safest way to proceed. As this method is being used more and more, I feel that in time the stealing of names will become less.

There is one thing that the dealer has practically under his own control, and that is to insist that the trusteeship of issues which he is putting out is given to trustees who guarantee the safeguarding of the names which come into their hands, as far as it is possible for them to do so.

If the dealers will follow this practice, I feel that it will not be long before the trustees will take it upon themselves to guard the names to such an extent that we will not be bothered any more than we were before the Income Tax Law went into effect.

I think I am stating the consensus of opinion of all investment bankers when I say that trust companies which use for their own advantage names which really come to them in confidence are violating business ethics and laying themselves and their organizations open to the strongest criticism.

Now, gentlemen, we have made quite an examination around in the various trust companies, and every one of them has gone on record and made it a point to safe-guard every one of the names which comes into their hands, but there have been quite a few break-overs that we know of; and in those cases, when it comes right down to the point, they say they were sorry, and they would stop it. Now, I think there are a number here who represent trust companies which I know have gone on record to safe-guard these names, and I think it would be very nice to hear from some of them. We have others here who have had their names violated to a very great extent, and especially by the companies for whom they sold the bonds. The companies get these names and when they have bonds to buy for their sinking funds, they think that is the easiest way to get them. There is a way to prevent that, and that is by substituting these certificates. When we went to Washington to talk that matter over with the officials, Mr. Williams was in the department at that time, and having been in the bond business himself he realized the hardship it was on the bankers; and when we provided the duplicate certificate system that absolutely covered that point; those names do not come back to the companies — they go to the Government, so that if you will all try to influence your customers to bring their coupons to you, it not only helps to get further business with them, but it keeps the names where you want them.

The President: I shall be glad to hear further discussion on this point. It is a question that has been discussed in the banking houses a good deal, and with a good many of us it is a very burning question. I think there is another class of people that are reprehensible in this matter, and that is the reorganization committees, for instance. Mr. Martin touched on the subject of corporations, that they even used those names for buying the bonds for the sinking funds — they hand the list of names to the bankers sometimes.

Mr. Brown (H. D. Waldbridge & Co. of New York): Speaking from an operating company's standpoint, the State of Pennsylvania has a law which requires the payment of a four mill tax on bonds owned in the State of Pennsylvania — no tax on bonds owned by non-residents. Up to this year we have been able to get by the Auditor General by simply filing a list of the names of

bonds of Pennsylvania companies operated by us, owned by Pennsylvania residents, and the tax has been levied on that list. This year, the Auditor General notified us that unless we filed a complete list of non-resident holders of bonds we would be assessed a tax on a percentage of the non-resident owners as reported by us, varying anywhere from thirty to sixty per cent. We got away from it this year, but we fully expect to be compelled to file that list with the state officials, and it goes through their clerical department next year. What is going to prevent state officials from giving out that list? I know this through Harrisburg that those lists have been given out.

Mr. Compton (Wm. R. Compton Co., St. Louis): May I ask how are they going to get the names, for instance, my house names, on the substitute certificate?

Mr. Brown: Unfortunately, in my case I am assistant secretary for some of these companies, and I have to certify to these lists. Our firm pays the coupons, and I am a member of the firm. How can I get away from it if I have to certify to the lists?

Mr. Compton: How are you going to get a list to certify to?

Mr. Brown: Substitute certificates; but fortunately there have been a great many substitute certificates sent in. We have a very complete list; and further, we have sold the bonds. [Laughter.]

Mr. Simon J. Block (Nelson, Cook & Co., Baltimore): I think the committee has overlooked one phase of the situation that seems to bother our accounting department more than the one that has been mentioned, and that is not so much where the trust company acts as fiscal agent of the corporation, but where some other banking house acts as fiscal agent for the corporation. That is where we are having our greatest difficulty, and that is the phase of the situation that I think could receive attention here. The trust companies can be brought to time very promptly, but in a city like Baltimore, for example, we have a large number of local institutions whose fiscal agents are some local banking house — I don't care to be more definite [Laughter]—but we have had a great deal of difficulty. Now, if every banking house in the United States were a member of this association, we might be able to reach them in that way, but everyone is not; and I would direct

to the committee's attention some reasonable way of reaching that phase of the situation.

Mr. Compton: In using the word "trustee," we regard a house of that sort as a trustee where the coupons are paid. It covers the point by using substitute certificates. It is the only way you can get them. You must prevail upon your customers to collect the coupons through you. It is up to every one of this Association to work this thing out for himself; he can do it through the trustee by not giving it to one who will leave it up to business ethics. There is no possibility of getting the Government to change under this administration, anyway. [Laughter.]

Mr. Caldwell: Mr. President, just a word on this subject: The American Bankers Association has a trust company section, and I believe that they would co-operate if they were asked to by this Association in working out this problem, and I believe they would be of very valuable assistance to us. So far as I know, the trust companies with which I have had to do have always been willing and tried to analyze and work under this law that has been put upon us to collect this income tax, and are burdened to a very large extent now with endless detail and endless confidential information. It is possibly true that in some instances they have not always done the right thing; it is not because they are not willing to; and cannot we, as an association, stir up some interest in that direction?

Mr. Hoyt: I might say that I wrote to the secretary of the American Bankers Association, and told him we were working on this subject, and asked him to refer the matter to a committee, if they had any committee which was seeking to eliminate the necessity for the use of certificates or was considering the question. Colonel Farnsworth wrote back that he had referred the communication to the general counsel, and I never heard anything more from it, so they were not working very hard to co-operate with us. We will have to get at them indirectly. I might make the further suggestion, if anyone has a definite and well thought-out idea of how, if possible, we could eliminate these certificates — some have talked about stamping coupons — if anyone has any suggestion and they will give it to us concretely in writing, we will give it most careful consideration.

Mr. Ross (Second Ward Savings Bank, Milwaukee): You will remember in speaking this afternoon regarding the Wisconsin Income Tax, I spoke of the fact that there was no attempt made to get at the collection at source under the administration of that tax, and in the opinion of the gentlemen who have been operating under the Wisconsin law they have been quite as efficient in their collection as has the Federal Income Tax administration. It is the opinion of the members of the Wisconsin Tax Commission that the collection at source involves an expense greater than the extra amount of tax collected because of it. In the report of the National Tax Association Committee, there is a counter suggestion which they call "Information and the Source." All the members of this Association who are interested in carrying this thing forward will probably be very interested in reading the full report of the National Tax Association Committee covering that suggestion.

Mr. Hoyt: Mr. President, I might say that the difficulty with collection at the source is that our clients who are bond holders would not get the advantage of that provision in a great many mortgages. The company agrees to pay the coupons without deduction. Now, if we had no collection at the source our bondholders could not have bonds which were exempt from the normal tax — they would have to pay them — that is why we never push that idea very hard.

Mr. Simons (Bodell & Co., Providence): If it were possible to put in substitute certificates, it would be a simple matter, but I do not believe it is possible to get any large number of your clients to do it, because the average bond buyer buys bonds from three or four different houses, and every time a coupon comes around those living around in the country towns, they have to mail some to one house and some to another house, and it puts them to a great deal of annoyance. Still, it would be good if it were possible to use substitute certificates, but I do not think it would be possible, and I think you will find that a large number of the coupons come through in the original name of the bond holders; and from another standpoint on this same subject, it seems to me that it is not good for the investors. For instance, an investor buys bonds from our house, and happens to deposit them in some bank who takes the name of some coupons — he

immediately becomes suspicious, and the men in the banks are changing around more or less, and that name is put up and taken to another bank, and before you get through there are four or five different bankers that know this man. That was true in Massachusetts where the tax on bonds is very high. I know investors who are prejudiced against bonds on account of this information having been brought out. I also know that the trust companies made a profit, and besides, that the trust companies have written clients direct after having been appointed trustee by the bond house — in fact I have letters in my files, a number of them, of letters written to them.

The President: Might I ask the gentlemen in rising to speak that you follow out the rule earlier made in the convention, first, give your name, the house you represent, and the city from which you come; it will simplify the work of the reporters and make it very much better for those of us who listen.

Have you anything further to say on this subject? If not, this report will be received and ordered printed.

The next business before the convention is the report from our general counsel, Mr. Reed.

REPORT OF GENERAL COUNSEL

Mr. Chairman and Gentlemen of the Convention:

Following the practice adopted in former years, I am delivering to you personally our report for the work of last year.

Blue Sky Legislation. The most important part of our work continues to be connected with the blue sky situation. Our victories in Michigan and Iowa have been followed by a third federal court decree holding the West Virginia Blue Sky Law unconstitutional. This decision by two judges, with one dissenting, was based squarely on the former decisions. But for those decisions it might have been conceivably two to one the other way. The majority opinion concludes with the gratifying statement, "The opinions in the Iowa and Michigan cases are so clear, sound and convincing as to not only command our admiration, but to lead us to the conclusion that nothing more complete and effective can now be added to them."

We now have the unanimous opinion of eight federal judges holding the Kansas type of law unconstitutional as applied to ordinary business corporations and partnerships raising money on their own securities for their own business purposes and to the dealers in securities of such corporations and partnerships. To this view there has been no dissent. The minority opinion in the West Virginia decision construed the act to apply only to organizations making a business, so to speak, of

promoting its own securities. The decisions upholding the Arkansas, Florida and Montana statutes also apply to strictly promotion and get-rich-quick concerns. They do not apply to the ordinary business of the investment dealer. This is made clear in the discussion of the West Virginia and Arkansas cases, which was published in the Commercial and Financial Chronicle of December 19, 1914.

The effect of these decisions in checking the spread of blue sky legislation is very clearly shown by the records of the 1915 legislatures. Eight states, including West Virginia, Iowa and Michigan, revised their existing laws, and no state adopted any new law, although in practically all of the forty legislatures in session blue sky bills were introduced and, in some cases, strongly urged. Our work in connection with this legislation, consisting in furnishing material and in correspondence, was fairly continuous during the legislative sessions.

One important result of our work in this matter has been the co-operation given us by the so-called "Blue Sky Committee," appointed by the 1914 convention of the National Association of Supervisors of the State Banks. Following the instructions given them by that association, to co-operate with our Association, this committee has worked with us to prepare a model blue sky act. This proposed act with their report upon it was presented to the 1915 convention of that association held at Oakland, Cal. I present it to you with this report in order that with your approval it may appear in the printed records of this convention. This is a fraud act, based on the federal postal laws, with effective provisions for its enforcement. Its purpose is to prevent fraud by making its detection and punishment simple and effective.

The new acts adopted during the current year have been published in the Bulletin, together with our comments upon those adopted in Michigan, Kansas and Iowa. The North Dakota law is practically the same as that adopted in Kansas. The South Dakota and Arkansas laws are practically the same as that adopted in Michigan.

The new Michigan act is largely a re-enactment of the former act which was declared unconstitutional. It has already been attacked in a suit brought by the parties to the former suit; a temporary restraining order has been entered, and it is expected that a motion for a continuing injunction will be argued before three federal judges within the next two months. This act is apparently a "test act." It seems to be the purpose of the attorney general if he is again defeated to carry, the decision to the United States Supreme Court, where we shall, I hope, in time get a decision establishing finally the important principle for which we contend. Only with such a decision by our highest court, may we feel secure against the Kansas type of law and be able to co-operate effectively with the state officials toward obtaining more or less uniform and effective legislation against the get-rich-quick concerns whose activities are the real object of blue sky legislation.

I do not wish you to think that aside from this Michigan suit, the blue sky situation is all plain sailing. Opportunism and radicalism die hard. There is a good deal of potential politics in blue sky legislation and it can only be met on our part by a frank appeal to public sentiment. A year and a half ago in answer to some criticism of our work, we made it publicly quite clear that we were unequivocally in favor of effective legislation. The result was prompt and satisfactory. We obtained the prompt and frank co-operation of the state officials association

Lawrence Chamberlain
Hemphill, White & Chamberlain,
New York City

George W. Kendrick, III,
E. W. Clark & Co., Philadelphia

Charles W. McNear
C. W. McNear & Company, Chicago

MEMBERS OF THE BOARD OF GOVERNORS

to which I have referred and we are now able to endorse the law proposed on behalf of that association. We have not, however, been able to continue what may be called the publicity side of this work. New opposition and criticism is coming from Michigan and Kansas, new misunderstandings of our position and desire. I hope that the individual members of the Association will do what they can, and wherever they can, to correct any such misunderstandings and, where necessary, will write us for information and material for this purpose. I hope they will give publicity wherever necessary to the position of the Association which has been repeatedly voiced by its officers, notably by the former president, George B. Caldwell, and here at this convention by its retiring president, A. B. Leach. We all know Mr. Franklin's position; that the Association from its inception has favored and now favors constructive blue sky legislation.

We have been told on every occasion that this legislation was not directed against the investment banker. We ask simply that it be so drawn that he is not mistakenly included in its provisions with blue sky fakirs, and get-rich-quick concerns. We ask also that the law be a continuing and effective instrument for the detection and punishment of fraud and not a regulating or license statute under which a successful fraud may pose as an investment bonanza and reap a dishonest harvest under the sanction of the state. We ask business freedom for the investment dealer, and a rocky road to the county jail for the get-rich-quick promoter. Our position on the whole subject was authoritatively stated in my address at the 1914 convention of the National Association of Supervisors of State Banks. This address you can find in the Bulletin* whenever you have occasion to use it in meeting a local situation.

In answer to a number of inquiries, and at the instance of Mr. Hoyt, we recently made a very complete examination of the question of the right to do business by mail in the blue sky states. Our opinion on this was published in a recent issue of the Bulletin. Our conclusion was that as to practically all the existing blue sky laws, and having in mind particularly those with which we are familiar, dealers might, as a matter of law, treat the regulative or license features of these laws as unconstitutional when applied to strictly interstate transactions. In reaching this conclusion, we were giving special weight to the so-called blue sky decisions in the Michigan, Iowa and West Virginia cases, and were assuming that these decisions would be upheld if the question finally came to the United States Supreme Court; in other words, we were of the opinion that these decisions are correct, but we could not say that they finally settled the question.

We stated that our general advice to dealers would be that in handling interstate business by mail they endeavor as far as possible, as a matter both of precaution and of good policy, to meet the views of the administrative officials of the states; that, wherever the volume of such business was large enough to justify it, they endeavor to conform to the statutes as they stand, but, on the other hand, where it was not possible to meet the views of the state officials without serious injury to the business, and especially where to do so would be prohibitive of the business, as in the case of dealers having only a small business in a particular state, that they should feel practically safe in ignoring the laws, at least for the purpose of making offerings by mail; and that, as a further precaution, it would be well to endeavor, so far

*July 15th, 1914.

as possible, to close transactions in the home state, and to do the business, so far as possible, outside the blue sky state.

In conclusion, we gave it as our opinion that, acting along these general lines, and asserting the right of freedom in their business only insofar as necessary to protect such business from destruction, legitimate dealers in investment securities should have nothing whatever to fear from any of the blue sky laws with which we are familiar.

I think that it can be fairly said that our blue sky work has had the important effect of pointing out the distinction between quasi-public business and private business, and of drawing a line beyond which executive control of business cannot legally and should not wisely go. Our decision on the Michigan law was several times quoted in the senate debates on the Trade Commission Acts, and is, perhaps, the strongest decision in the country today against executive control of private business.

Trade Commission Act. At the instance of the President, we examined the new Trade Commission Act, with a view to its effect on business and its constitutionality. My report on this had been included in the Bulletin. The so-called "unfair competition" provisions of the Trade Commission Act seem to me of very doubtful constitutionality; their principle is the same as that which we have so far successfully opposed in our blue sky litigation, executive control of private business. It is un-American, and, I believe, unconstitutional. It means a Government of men, not of laws.

In this connection it is well to record the fact that the committee on banking and insurance of the recent Constitutional Convention in New York drafted a proposed article giving to the superintendent of banks a very sweeping regulatory power over corporations and persons engaged in banking and quasi-banking business, which, as defined, included persons negotiating evidences of debt. We were able by correspondence and briefs to obtain a change in the proposed section so as to eliminate this provision. We took the position that dealers in securities should not, and under the Federal constitution cannot, be subjected to executive control. The whole proposed article seems later to have been rejected by the convention.

Taxation. A good deal of routine work has been done in connection with the income tax. We have advised the Association that in our opinion the so-called "losses in trade" rule adopted by the Internal Revenue Department is opposed to the law. A proper case has not yet been presented to us for contesting this ruling, but we understood that the members generally have been advised of the importance of obtaining one or more cases for this purpose. We feel quite confident the result will be a reversal of the ruling, and a relatively large saving to investors.

The situation with respect to the partnership questions under the Income Tax Law is somewhat the same. As soon as a proper case is presented, a test suit will be begun, and the present regulation will, we hope, be greatly modified, if not entirely reversed.

Some work has been done on tax reform questions, particularly in New York, in the matter of the taxation of intangibles. We have urged with only partial success so far the feasibility of a so-called exemption tax, that is, a small tax on securities upon the payment of which the securities are stamped tax exempt for a definite period. We believe it can be demonstrated that this method of taxation

is more remunerative to the state than any other method that has been proposed. Like most effective tax measures, it is practical, not theoretical.

Municipal Bonds. Some of the most important work of the past year, and of the present day, is that connected with the reform in municipal bond legislation. Partly as a volunteer, partly for other clients, and partly for your Association, I have endeavored to get some practical results from the general demand for better municipal financing. We did our part in obtaining the serial bond feature and also the probable life provision in the revised New York constitution as applying to both state and municipal indebtedness. Nothing can be more practical and effective than these twin remedies to prevent a gradual piling-up and over-extension of municipal debt.

The whole subject of municipal financing is up for investigation and action in New Jersey. I was recently retained to address the 1915 Convention of the New Jersey Savings Bank Association on the subject of "Legal Safeguards for Municipal Bonds," and since that time have been in active consultation with the chairman of a commission appointed by the governor to investigate municipal financing. The recommendations I have made to this state commission and wherever possible in New Jersey, New York, and elsewhere, embody, I believe, the views which experience has brought to nearly all of us who have studied this subject. They may be summarized as follows:

1. One general municipal bond law in each state, with uniformity, so far as possible, in their essential provisions in the different states.

2. Adequate debt limits, based on assessed values, with separate but real limits applicable to water debt and possibly to other debt for revenue-producing utilities, based on a proved existing revenue, but not upon a prospective revenue.

3. A prohibition against tax limits applicable to the payment of municipal debts. Limit the power to borrow, not the power to pay.

4. A prohibition against funding of maintenance charges, except by revenue bonds running not more than five years.

5. An effective system to compel the liquidation of all debt within the period of usefulness of the improvement for which it is incurred. Personally, I feel that a serial bond with a limited maximum maturity is essential for this purpose. I believe the requirement should be that the instalments of principal shall be so related in amount that the sum of the principal and interest in any year shall not exceed the sum of the principal and interest in the preceding year; also that all bonds shall mature within a period certified or declared in advance to be the period of the probable usefulness of the improvement, or within a period fixed by a general law, prescribing a maximum period for the different classes of improvements. If long term or sinking fund bonds be authorized, and as to all such bonds now outstanding, we should have a mendatory tax provision making it the absolute duty each year of a designated official to collect a sum which with the funds in hand and with equal annual levies for the ensuing years, duly amortized in the sinking fund, will equal the principal at maturity. Where refunding becomes necessary, it should be required to be by serial bonds maturing and to be paid in the shortest possible period out of a substantial annual tax, say of one-eighth of one per cent. The rule of payment out of revenue, of actual liquidation of debt, should be emphasized and permanently established as the keystone of municipal security.

6. An optional taxpayers' referendum (as distinguished from a mendatory election) on all bond issues, certainly as to those of the smaller municipalities.

7. Some permissive and expeditious judicial proceeding to determine conclusively any question affecting the validity of municipal bonds, in advance of their issuance.

I should also report that we were able to obtain an exception in favor of state and municipal bonds in the proposed new article of the New York constitution prohibiting any irrevocable exemption from taxation. This, of course, is an important point.

The New Jersey Commission will, I believe, urge many practical reforms. Its chairman has asked me to obtain from this Association, or its Municipal Bond Committee, a statement of its position on the question, as I understand it, of a state audit and supervision of municipal financing and sinking funds. He has particularly in mind a permanent state commission which will hold municipalities to a definite scheme of right financing and debt provision. Also he mentions the suggestion that the municipal record and proofs on each bond issue be filed with this commission. I mention these matters at this time because this New Jersey commission is covering practically the whole field, and with proper co-operation and publicity, its results may be of great value in many states.

It seems to me that in its constructive possibilities for the betterment of the municipal bond business, no work is more immediate and practicable for the Investment Bankers Association of America. The municipalities and states realize the value to them of the work done by this Association in connection with the Income Tax Law, first and foremost, in preventing the compulsory disclosure of income received from state and municipal bonds, in making them trouble-free as well as tax free, enhancing by many fractions their market value in a time of real need, and second, in upholding the exclusion from the tax law of special assessment bonds and bonds of special tax districts. Municipal officials, I think, appreciate the mutuality of interest between themselves and the dealers, and particularly the fact that the investment houses are as jealous as the taxpayer and investor of the credit and safety of municipal obligations.

All of this gives us practical advantage and duty, so to speak, to use our position as a national association, our practical and legal knowledge to obtain co-operation throughout the country in the intelligent work now under way. It is, let us remember, the work of the states in which we may be privileged to aid. Let it not be or even seem to be an effort on our own part to impose our preconceived notions on the responsible officials of the states. It is not our work, but their work, but it lies within a field of business service in which we are specially qualified and glad to contribute. It is one of the many opportunities of public service that have come to us.

May I conclude with an amplification of this thought that seems to me to be timely. It applies to our municipal work, our tax work, and our blue sky work—to all our work. I think it can be fairly said that for the three years of its life your Association in its legislative and legal work has devoted itself almost exclusively to the accomplishment of things which, while of much value to its members, are of more value to the country at large, to the states, to the municipalities, to the business man and to the investors. The officers of your Association have directed

this work. They have kept in mind the view which was voiced in my address to you two years ago—"our business is a business of service, a part of the general welfare, and that whatever more selfish interests we might seem to have our largest interests lie in the welfare of the public whom we serve."

In maintaining this policy your Association has, I believe, earned not only the confidence but the gratitude of the public interest for which it has worked, has not only worked for these interests but it has never put its own interests or the interests of its members above the interests of the public on any question. It has in every case squared its position on public questions with the public interest. This is largely because of the relation which the investment bankers bears to the varied interests of our national life. Because his mental habit is that of competitive service to these interests. It is in no small part, however, because your officers have refused to take any action opposed to the position which I have stated. This position is, I believe, both right and sincere. It is the only position compatible with any continued service in public matters. If we cannot demonstrate that we are right from the public viewpoint it is worse than useless for us to endeavor directly or indirectly to accomplish any private advantage. Even if we gain that advantage we have injured the general good which is our greatest interest, and our power to serve which is essential to every interest.

In closing, I would take a word from your first president, George B. Caldwell, under whose wise leadership this policy was established. This is the kind of "publicity," whether it be forty per cent or ninety-nine per cent, which makes the reputation of the investment banker, individually and collectively, his greatest assest and his greatest pride.

To the National Association of Supervisors of State Banks:

A resolution was adopted at the last annual Convention of the National Association of Supervisors of State Banks, reciting "that inasmuch as the operation of the Blue Sky Law in different states has met with uncertain results, therefore be it resolved that this Association offers to coöperate with the so-called investment bankers to secure uniform laws which will be practical in effect."

The undersigned committee was appointed pursuant to this resolution. It presents herewith a proposed law which embodies what seem to it to be the fundamentals, so to speak, of an effective and constitutional Blue Sky Law. These features are:

1. A fraud provision adapted from the existing federal law. Such a provision should, in our opinion, be the basis of any legislation on this subject. Without it, a Blue Sky Law may serve to ward off obvious frauds: it cannot be a deterrent, and is in fact an aid to more skillful frauds which are not detected in the first instance.

2. A provision requiring that a state official be notified of all offerings of securities made within the state. This publicity feature has, we believe, been the cause of the great success of the Kansas type of law, and for it credit is due to the originators of that law. It compels every promoter to make his presence and purpose known. This requirement standing alone is practically prohibitive of two-thirds of the frauds.

3. Provision giving general power of investigation to the state official

6. An optional taxpayers' referendum (as distinguished from a mendatory election) on all bond issues, certainly as to those of the smaller municipalities.

7. Some permissive and expeditious judicial proceeding to determine conclusively any question affecting the validity of municipal bonds, in advance of their issuance.

I should also report that we were able to obtain an exception in favor of state and municipal bonds in the proposed new article of the New York constitution prohibiting any irrevocable exemption from taxation. This, of course, is an important point.

The New Jersey Commission will, I believe, urge many practical reforms. Its chairman has asked me to obtain from this Association, or its Municipal Bond Committee, a statement of its position on the question, as I understand it, of a state audit and supervision of municipal financing and sinking funds. He has particularly in mind a permanent state commission which will hold municipalities to a definite scheme of right financing and debt provision. Also he mentions the suggestion that the municipal record and proofs on each bond issue be filed with this commission. I mention these matters at this time because this New Jersey commission is covering practically the whole field, and with proper co-operation and publicity, its results may be of great value in many states.

It seems to me that in its constructive possibilities for the betterment of the municipal bond business, no work is more immediate and practicable for the Investment Bankers Association of America. The municipalities and states realise the value to them of the work done by this Association in connection with the Income Tax Law, first and foremost, in preventing the compulsory disclosure of income received from state and municipal bonds, in making them trouble-free as well as tax free, enhancing by many fractions their market value in a time of real need, and second, in upholding the exclusion from the tax law of special assessment bonds and bonds of special tax districts. Municipal officials, I think, appreciate the mutuality of interest between themselves and the dealers, and particularly the fact that the investment houses are as jealous as the taxpayer and investor of the credit and safety of municipal obligations.

All of this gives us practical advantage and duty, so to speak, to use our position as a national association, our practical and legal knowledge to obtain co-operation throughout the country in the intelligent work now under way. It is, let us remember, the work of the states in which we may be privileged to aid. Let it not be or even seem to be an effort on our own part to impose our preconceived notions on the responsible officials of the states. It is not our work, but their work, but it lies within a field of business service in which we are specially qualified and glad to contribute. It is one of the many opportunities of public service that have come to us.

May I conclude with an amplification of this thought that seems to me to be timely. It applies to our municipal work, our tax work, and our blue sky work— to all our work. I think it can be fairly said that for the three years of its life your Association in its legislative and legal work has devoted itself almost exclusively to the accomplishment of things which, while of much value to its members, are of more value to the country at large, to the states, to the municipalities, to the business man and to the investors. The officers of your Association have directed

this work. They have kept in mind the view which was voiced in my address to you two years ago—"our business is a business of service, a part of the general welfare, and that whatever more selfish interests we might seem to have our largest interests lie in the welfare of the public whom we serve."

In maintaining this policy your Association has, I believe, earned not only the confidence but the gratitude of the public interest for which it has worked, has not only worked for these interests but it has never put its own interests or the interests of its members above the interests of the public on any question. It has in every case squared its position on public questions with the public interest. This is largely because of the relation which the investment bankers bears to the varied interests of our national life. Because his mental habit is that of competitive service to these interests. It is in no small part, however, because your officers have refused to take any action opposed to the position which I have stated. This position is, I believe, both right and sincere. It is the only position compatible with any continued service in public matters. If we cannot demonstrate that we are right from the public viewpoint it is worse than useless for us to endeavor directly or indirectly to accomplish any private advantage. Even if we gain that advantage we have injured the general good which is our greatest interest, and our power to serve which is essential to every interest.

In closing, I would take a word from your first president, George B. Caldwell, under whose wise leadership this policy was established. This is the kind of "publicity," whether it be forty per cent or ninety-nine per cent, which makes the reputation of the investment banker, individually and collectively, his greatest assest and his greatest pride.

To the National Association of Supervisors of State Banks:

A resolution was adopted at the last annual Convention of the National Association of Supervisors of State Banks, reciting "that inasmuch as the operation of the Blue Sky Law in different states has met with uncertain results, therefore be it resolved that this Association offers to coöperate with the so-called investment bankers to secure uniform laws which will be practical in effect."

The undersigned committee was appointed pursuant to this resolution. It presents herewith a proposed law which embodies what seem to it to be the fundamentals, so to speak, of an effective and constitutional Blue Sky Law. These features are:

1. A fraud provision adapted from the existing federal law. Such a provision should, in our opinion, be the basis of any legislation on this subject. Without it, a Blue Sky Law may serve to ward off obvious frauds: it cannot be a deterrent, and is in fact an aid to more skillful frauds which are not detected in the first instance.

2. A provision requiring that a state official be notified of all offerings of securities made within the state. This publicity feature has, we believe, been the cause of the great success of the Kansas type of law, and for it credit is due to the originators of that law. It compels every promoter to make his presence and purpose known. This requirement standing alone is practically prohibitive of two-thirds of the frauds.

3. Provision giving general power of investigation to the state official

to uncover fraud in any promotion. This provision has been devised by the committee to meet all kinds of instances. The committee does not believe it advisable for the statute to attempt to specify either the procedure or proof necessary to uncover fraud. There can be no rule applicable to all cases, and the requirement of some matters suggests the exclusion of others. There could not be uniformity in practice, and it is not wise to attempt it in a statute covering so large a field.

We believe this proposed law is capable of enforcement, and incapable of evasion. It does not purport to give the sanction of the state to any offering. It does not make the offering subject to state approval, but it puts the state in a position where if the offering is fraudulent, it can be stopped in the most effective way; i.e., by prosecution.

We do not believe ingenious stock frauds can be prevented by requiring them to obtain a state license, there being no penalty attached to the making of the application, and the license, if granted, being in fact a material aid to the fraud.

We do believe that all fraud can be prevented by making it unprofitable, that is, by imposing heavy penalties upon it and providing adequate machinery for its detection and punishment.

The proposed law, however, speaks for itself. It is plain reading, based on a general principle, and puts the whole matter with plenary power in the hands of the state, the prosecutor, the court, and the jury.

E. L. Richards, Chairman
George W. Lamonte
Wm. H. Smith

Dated, May 14, 1915.

PROPOSED BLUE SKY ACT

Endorsed by Committee on Blue Sky Legislation Appointed by National Association of Supervisors of State Banks.

Section 1. If any person, including a corporation or association, and the officers or agents thereof, alone or in common with others, having devised or intending to devise any scheme or artifice to defraud by the issuance, sale, promotion, negotiation or distribution of any stocks, bonds, notes or other securities, shall in or for executing such scheme or artifice or in attempting so to do, commit any overt act within the state, such person shall, upon conviction, be punishable by a fine of not more than $5,000, or by imprisonment for not more than five years, or by both such punishments, at the discretion of the court. (Adapted from the Federal Postal Laws, R. S., Section 5480).

Section 2. Every person, firm, corporation or association, hereinafter called the dealer, who shall, as principal or agent, promote by advertisement, circular, prospectus or by any other form of public or general offering or through agents, the sale of any securities in this state (except to banks, bankers, trust companies, dealers or brokers in securities), shall, prior to or at the time of making such promotion, notify the (official or board) of such fact, describing such securities, and file from time to time any and all prospectuses and circulars, if any, used or to be

used in such promotion, and such (official or board) may make such investigation thereof and require such information or proof with respect thereto as (he) may deem necessary to determine the character of such securities and of such promotion. If any such dealer shall mail, postpaid and properly addressed to the (official or board), a prospectus or circular containing the offering of any such securities, with the name and address of such dealer, the same shall be deemed a notification under this section of the promotion thereof as aforesaid.

SECTION 3. The provisions of Section 2 shall not apply to the offering or sale of any securities on any recognized exchange in this state, nor to the advertisement or sale thereof at public auction or pursuant to the order of any court, nor to the advertisement of any securities in any magazine or newspaper published outside of the state, unless the dealer shall cause the same to be distributed in the state.

SECTION 4. Such (official or board) may also make such special investigation as may be deemed necessary, in connection with the promotion of any securities under this act, to determine whether the same constitutes a violation of this act by any individual, corporation or association, and such (official or board) shall have the power to issue subpoenas and process compelling the attendance of any person and the production of any papers and books for the purposes of such investigation and examination, and shall have power to administer an oath to any person whose testimony may be required on such examination or investigation.

SECTION 5. If such (official or board) shall determine that any such promotion constitutes a violation of this act, (he) shall immediately take such steps as may be necessary to cause the arrest and prosecution of all persons deemed guilty thereof. It shall be the duty of any district attorney to prosecute any violation of this act in his county and upon request of the (official or board) the attorney general shall direct and control such prosecution.

SECTION 6. Any person who shall knowingly make or file or cause to be made or filed any statement, information or proof required hereunder by such (official or board), which is materially false, or who shall promote or cause to be promoted by advertisement, circular, prospectus or by any other form of public or general offering or through agents, the sale of any securities, without complying with Section 2, except as therein excepted, or without furnishing to the (official or board) any information or proof in the possession of or reasonably obtainable by such person, if and after the same are required by the (official or board) under such Section, shall, upon conviction, be punished by a fine of not more than $1,000, or by imprisonment for not more than one year or by both such punishments, at the discretion of the court.

SECTION 7. Every dealer in securities, including every person, firm, corporation or association engaged in the business of selling stocks, bonds, notes or other securities, having a place of business in this state, shall annually on the first day of————, file with the (official or board) a statement showing the name and business address in the state of such dealer and if the principal office of such dealer is out of the state the address of such principal office, and if such dealer is a corporation or association organized under the laws of another state the address of the principal office of such corporation in such state. Such statement shall be accompanied by a filing fee of twenty-five dollars. Every agent of any such dealer not having an office in this state or not having filed such statement as aforesaid,

who shall in this state offer or sell any such securities, shall, annually on the first day of——— or thereafter and before he shall in this state offer or sell any such securities file a statement with the (official or board) showing the name of such agent and his address if any in this state and the name and principal office of any such dealer, and if such dealer is a corporation or association organized under the laws of another state, the address and principal office of such corporation in such state. Such statement shall be accompanied by a filing fee of three dollars. A violation of this section shall be punished by fine not exceeding $500.

Respectfully submitted,

ROBERT R. REED, *of General Counsel.*

The President: This report will be received and ordered printed.

The next order of business is the Report of the Committee on Irrigation, Land Reclamation and Rural Credits, Mr. H. P. Wright, Chairman.

Mr. Wright (H. P. Wright Investment Co., Kansas City): Mr. President and Gentlemen: Your Committee on Irrigation, Land Reclamation and Rural Credits consists of Mr. M. B. Moon, Vice President of the First and Old Detroit National Bank, Detroit; Mr. J. C. Cunningham of the Union Trust & Savings Bank of Spokane; Mr. J. W. Porter of Boettcher Porter & Co., Denver; Mr. Lynn H. Dinkins, Interstate Trust & Banking Co., New Orleans; Mr. John W. Edminson of Wm. R. Staats Company, San Francisco; and H. P. Wright of Kansas City.

REPORT ON IRRIGATION, RECLAMATION AND AGRICULTURAL CREDITS

The subject assigned to your Committee on Irrigation, Land Reclamation and Rural Credits is too great in its scope to be referred to one committee and receive the attention which it deserves.

This committee, unfortunately widely separated geographically, has been unable to meet personally, but has done a large amount of correspondence and some of its members have devoted considerable time to a study of the different phases of the subjects assigned to us. Further on in this report we will make some recommendations suggested by our investigations, which it is hoped may receive the earnest consideration of the Association.

Irrigation: Your committee is impressed with the indisputable fact that in enormous areas of the United States, irrigation of land is as scientific and reliable and conservative an undertaking as the operation of any public utility. Hundreds of irrigation districts and private projects have been extremely successful, and, yet, because they were quietly and conservatively financed, they have never been heard of by the general public, but practically all of the enterprises that the public has heard of are those that have been promoted on such a basis that both financial and physical troubles were inevitable. The spectacular propositions in irrigation enterprises which have come to the attention of the public are a queer combination of speculation, politics, land agents, lawyers, bond scalpers, wild cat engineers, country newspapers, town lot boomers, and a long retinue of rainbow chasers in general. [Laughter.] The rake-off was so large that there was room enough for all. The typical irrigation bond issue which has been offered to the public has been based on a section of territory where there were no railroads, no towns, no farmers, no people, no highways and no immediate need of irrigation or anything else. [Laughter.] The expectation of the promoters being that when the water was on the land, the railroads and the people would come to it and the speculators reap the profit in land that will advance in value from nothing to some fanciful figure usually assumed to be $300 to $500 per acre. [Laughter.] It would be just as sensible to think of building the school houses and the jails and the churches and the sewer systems for a large population before anyone showed an inclination to come to that particular part of the desert. [Laughter.] The coyotes will be howling for a hundred years to come along the right-of-way of many of these foolish ditch enterprises, into which much innocent money has gone in the hope of making a large profit and led in by people who knew nothing of and paid little attention to the fundamental question involved.

Your Committee finds that no superficial remedy can be applied that can immediately correct these troubles. There is no cancer that can be cut out and leave the patient healed. It seems not to be a case of surgery but rather a blood disease that will call for a long course of medical treatment, including emetics and purgatives, with considerable attention to diet and with much exercise for the patient out in the open air and sunlight. The whole situation in irrigation seems to have been built up in an unfortunate, complicated and selfish manner all the way from the method of obtaining individual titles to

the land back to the acquiring of the water rights on the streams. No one seems to be entirely satisfied except the fellow who has "got his" and who is now in full enjoyment of the situation. The laws as a rule are complicated, unfair, unjust, unworkable and inconsistent and in most cases a weird combination of both state and federal laws have to be complied with. In no two states are they alike. Litigation and uncertainty are always present. Your committee is unanimously of the opinion that eventually some way can be worked out either under federal or substantially uniform state laws that will make an issue of irrigation bonds to be as simple and as easily investigated as to merits and as safe an investment as a school bond or courthouse bond covering the same municipal district and which are a tax lien on the same property.

Your committee does not feel competent at this time to make a recommendation of any particular line of action on the part of this Association, but it recommends that for the time being, we refrain from any definite expression, but continue its study through standing committees until, in the light of further research, a policy can be intelligently developed.

To this end we recommend that it would be advisable for this organization to unite its efforts with those of the International Irrigation Congress. It may be that later on the interests of the two organizations would not be identical and that co-operation would be undesirable, but for the time being, the interests of that organization as well as ours is confined to an earnest effort to bring out of the present chaotic and unsatisfactory condition some sort of a uniform and workable physical and financial system, whereby the surplus water from the mountains and the valueless land in the desert may be brought together in a reasonably scientific way for the general good of the greatest number of people possible. While differences may develop later on, the aims at this time are so nearly identical that, in our judgment, the co-operation would be of great advantage to both organisations. The Irrigation Congress is nation wide in its membership and includes the governors, senators and congressmen from most of the states where irrigation and land reclamation are of interest.

We have had correspondence and interviews with the president of that organization and they are well organized, both nationally and in the various states, and we are informed that they have a strong political standing in Washington. We would recommend that this Association work with them with the belief that by co-operation much better efficiency may be obtained. They have substantial funds available for this work and have invited our co-operation with the thought that our experience in financial lines would be highly desirable in connection with their studies of the practical and physical and political questions involved.

Land Reclamation: It is the understanding of your Committee that under the subject of land reclamation, it is the intention to refer to those methods of reclamation other than irrigation. Even then the subject has such a wide scope that it should be subdivided to enable a committee to make a report which will have much practical value. The reclamation of prairie swamp land in Iowa by ditching is an entirely different proposition from the reclamation and protection of land in Missouri or Louisiana from annual overflow, or the reclamation by protection from the erosive action of sea and rivers, or the reclamation by drainage of the fertile swamp lands of Florida. Each plan of reclamation involves a set of legal and physi-

cal conditions peculiar to itself and it must be treated accordingly. It seems to us that at this time about all that can be done by this Association is by concentration of business by our members, so far as is possible, to develop a class of engineers and attorneys who will make a specialty of this line of work and become expert in it. It seems to be the opinion of everyone who has handled bonds for this kind of work that dangerous questions are always present, both legal and physicial, on which there is no one available to whom we can go for advice with entire satisfaction and confidence.

We find the question constantly raised as to whether better results might not be obtained if all reclamation projects were to be worked out under a uniform federal law, rather than under the more or less complicated and diversified state laws. On this point your Committee does not care to make a recommendation. Both views have strong advocates and excellent arguments are found on both sides. Uniformity of action and legal stability under federal law are urged on one hand; and speedy action and local interest under state laws on the other. The development of these enterprises under any federal regulation leads dangerously near to the subject of "conservation" which has during the past few years become such a fruitful source of successful hysteria and advertising to a class of politicians that could find no other way to engage the public print. The Federal Government through the United States Reclamation Service has taken more or less interest in all kinds of land reclamation and has done much effective work, but no clearly defined policy along any particular line has developed, so far as we are able to find.

There is such a range of interest involved in this subject that your Committee recommends that next year a standing committee be appointed for the consideration of irrigation and land reclamation alone, and that the members be located geographically so that meetings may be possible and that a small appropriation be placed at their disposal, and further that the committee be of such size that it can be divided up by the chairman to work as two subcommittees — one of which shall confine its attention to irrigation, and the other to the reclamation of land by other means.

Rural Credits: I want to say that in preparing this part of the report we approached this subject with a great deal of reluctance. We recognized fully that the very subject itself is kind of a black beast to the investment banker. We recognize the dangers that must necessarily follow such a tremendous expansion of credit as any theory of rural credits involves; and yet we realize that there is developing very rapidly a nation-wide feeling that a rural credit system is going to be developed, it is coming, you can't get away from it, you can't stop it. Congress has scores of bills before it, and action is going to be taken in this next Congress on something, and we have had in mind an additional thought that out of this mountain of rubbish something is going to develop, and if this Association takes a definite position, it is likely to be used by the politicians as an argument in favor of radical bills that otherwise might be avoided. You can't get away from the fact that like many other enterprises, this whole project of Rural Credits, in its beginning, is a political proposition. The people who jump to it in the first instance are going to be the politicians who will use it to make medicine. Later on, like the federal bank laws, and like many other things I might mention, cooler heads get hold of it and straighten it out, and it may be that they can work out

some plan that will not be objectionable; but your Committee has had the thought that for the time being, until the real issue develops, that perhaps we had better not undertake to guess what the issue is going to be when it does come—we might miss it. There are a thousand different theories in the 118 bills before Congress. There are bills in pretty nearly every state in the Union. You gentlemen from New York I don't believe know there is one in your state that went into effect just a year ago that would raise Ned with the banking business and the investment business if they ever took advantage of it. It went into operation the 1st of February I believe, and I bet you haven't read it. [Laughter.]

It is quite probable that the matter of Rural Credits is to be the next great issue that will be dragged on to the political stage. In the last session of Congress at Washington a large part of the members made speeches on some of the various bills, which were introduced with the purpose of providing easy money for the farmers. Tons of these printed speeches were sent home to see how the people would take them. It is evident that the subject sounds good to the farmer, and anything that interests the farmer may be counted on as sweetmeat for the politician. Anything that promises plenty of money at 5 per cent interest without commission and without necessity of immediate repayment may be relied upon to make votes. Some kind of an agricultural credit system is going to take definite form in the near future. It is an issue that is coming before the people in a very prominent way and it will make no difference whether our Association favors it or opposes it. We believe that this Association should not at this time express a definite position, either in favor of or opposed to the rural credit system, but that we should make our plans to keep in close touch with all proposed legislation, both state and national, and then determine our position after the issue is clearly defined.

The plans so far proposed have the widest range imaginable. By some people it is thought that the rural credit system should be worked out by the states alone. Congress seems to be inclined to the thought that it is a national issue and should be handled along national lines, possibly in some way through the National Banks or the Federal Reserve Banks as a special department. Some go to the extent of wishing to make farm mortgages the basis for currency or government bond issue; and others favor the taking of deposits on interest in a national bank organized for the purpose which will loan it practically at cost on farm mortgage security. There is a very wide range in the plans suggested, and out of about 118 bills introduced in Congress many are too crude to be taken seriously. Many of them are, however, following closely plans which have been in operation in various European countries for many years with excellent success. It is possible that something workable in this country might be developed along these same plans when adapted to the different social, economic, and political conditions of our people, but your Committee has not as yet seen any plan that appears to it to be altogether ideal.

A number of the states have passed laws recently to provide farm credits. Most of them follow quite closely the plan of the building and loan association, with which everyone is familiar. These permit the shares of the Association to be paid in by periodical payments by subscribers. This plan works well so long as depositing and borrowing members are equally balanced. In Oklahoma a law

recently passed provides that the Commissioners of the Land Office are empowered to loan the money received from the sale of state lands to farmers at 4 per cent interest. When the money from the sale of public lands is exhausted they have authority to issue and sell 4 per cent debenture bonds against an equal value of farmers' notes, secured by first mortgage deposited with the State Treasurer. Such debentures are to be signed by the Governor and other state officials, but are to contain a recitation that they are not the direct obligation of the state. They are good as security for state deposits and are exempt from taxation. In the Oklahoma law the borrower makes his loan for 23½ years, payable in forty-seven equal semi-annual installments. A payment of $8.00 per year, consisting of semi-annual payments of $4.00 each on each $100, borrowed will liquidate the debt fully with interest in 23½ years. The borrower has the privilege of full prepayment at all times.

All of these attempts show a wide spread and growing idea the country over that agricultural credit is laboring under a much heavier burden than is fair and that it is in some way going to be changed.

In Kentucky a co-operative company with a capital of one million dollars of which Governor McCreary is President has been organized and seems to be doing a large business. It issues and sells to the public its debentures against these farm loans. The borrower pays back the loan in fixed and equal annual installments, covering both interest and amortization. The company makes farm loans for either ten, twenty, thirty, forty or fifty years. The annual rate of payment on a thirty year loan for one thousand dollars is $68.72. At the end of the period the loan is extinguished. Interest is figured at 5 per cent without commission. One interesting fact in this problem is that the evidence before the Congressional Committee is said to show that after the farmer has paid all the expenses that generally attend the making of a farm loan, including usually two commissions, a bill for abstract, attorney's fees, and the other attendant expenses, his money costs 8 to 9 per cent, and at the same time no one thinks of loaning him more than 50 per cent of the value of his pledged security, although experience has shown it to be about the most stable of anything in the world. This is hardly in keeping with the rates or conditions imposed on his city brother in commercial business. When we recall how closely the prosperity of the farmer is linked with the prosperity of the whole country, and how much of a handicap this burden is to him, we feel that this Association will do well to take an active interest in the legislation which is sure to come before the next Congress in Washington. We fully realize the dangers which will follow such an easy and enormous expansion of credit. Those favoring the rural credits answer this by calling attention to the enormous improvement in farm conditions which will follow when the load of debt is made easier to carry and the consequent increase in the value of farm lands and the probable return of population to the farms, as the social and industrial and economic conditions are made more attractive. I saw a letter from President Wilson a short time ago in which he said that he expected to play this up very strongly in his next annual message to Congress. [Laughter.]

Both political parties have in a way pledged themselves to legislation along this line. Recent statements by both President Wilson and ex-President Taft show intense interest in this subject.

The Farm Mortgage Bankers Association of America with its most excellent membership has confined its efforts quite largely to this subject. It has worked along this line much as our Association has on the blue sky laws. It has maintained a strong organization at Washington, and it is planning to maintain an even stronger organization there during the coming session. Your Committee has been in correspondence with the officers of that organization, and they have invited our co-operation. They seem to have quite a fund available for necessary expenses. We believe that our Association can obtain good results by working with the Farm Mortgage Bankers Association of America rather than by independent action. The International Irrigation Congress has also taken a deep interest in this matter, and it will not be surprising if hereafter their efforts would be about equally divided between the two subjects of irrigation and rural credits. Your Committee believes that we should work with both these organizations in the matter of rural credits at least until such time as it may be clearly determined whether our interests are identical.

RECOMMENDATIONS

Your Committee therefore recommends:

First: That the work now assigned to this Committee be divided among two standing committees — one on Irrigation and Land Reclamation, and one on Agricultural Credits — and that the members of the former committee be so selected geographically that they can operate as two subcommittees and have meetings without serious inconvenience to the members.

Second: That in the matter of Irrigation and Land Reclamation this Association co-operate through a special committee with a similar committee of the International Irrigation Congress, if it can be arranged, so long as it proves to be that the aims of the two organizations are identical as now appears.

Third: That in the matter of Rural Credits, this association refrain from any expression of policy at this time, but co-operate through a special committee with similar committees, if it can be arranged, from the International Irrigation Congress and the Farm Mortgage Bankers Association of America, such co-operation to continue so long as the interests of the three associates are in harmony.

Respectfully submitted:

H. P. Wright, *Chairman*

The President: If it be your pleasure, this report will be ordered printed, and the recommendations laid before the Board of Governors for action.

At the last meeting of the Board of Governors a special committee was named to take up the question of Rural Credits, rather as an additional effort to the work done by this Committee. I will ask Mr. Compton, Chairman of that committee, to read that report.

Mr. Compton (Wm. R. Compton Co., St. Louis): Mr. President, and Gentlemen, I wish to announce before commencing my paper that Mr. Wright is a real personal friend of mine,

and if my paper seems in conflict, that those of you who observe us tomorrow going arm in arm towards the Association bar, you will know that this friendship is still unbroken.

Mr. Wright: Yes, we have to sleep in the same bed tonight. [Laughter.]

REPORT OF SPECIAL COMMITTEE ON RURAL CREDITS

The subject of Rural Credits has been much in the limelight for the past few years. The last session of Congress was particularly busy on this subject; numerous bills were introduced which it is not necessary here to recount. The two bills that received the most consideration by the Banking and Currency Committees of the two Houses were known as the "Hollis-Bulkley Bill" and the "Hollis Bill." The whole matter was simmered down in the appointment of a Joint Committee on Rural Credits, of which the Honorable Carter Glass, of Virginia, is Chairman.

In addition to the national interest in the subject of Rural Credits, various states, notably Kentucky and New York, have passed laws creating land credit banks dealing with this subject. All of these proposed laws deal with the subject of land credit banks authorized by Government or State, which, in effect, either make the Government liable in whole or in part for the securities purchased or at least so lend cash resources or faith of Government as to imply to the investor that securities of these proposed chartered banks are a recommended investment, and that the Government in some direct or indirect way is responsible therefor.

A very exhaustive study of the system of land credit banks and the general subject of Rural Credits in vogue in European countries,— notably Germany, France, Austria, and Italy — has been undertaken by various committees and by private citizens. The consensus of opinion seems to be that European farmers, through the operation and fraternal assistance of government, are enabled to borrow money at much more satisfactory interest returns than otherwise would be possible. Rates as low as 4.30 per cent, and varying to 5 per cent, are quoted as normal charges on farm loans by these rural credit banks. Against this, the Department of Agriculture in 1913 estimated that the farmers' debt of America averaged an interest charge of 7.75 per cent. It must be borne in mind that under normal conditions money is worth a less percentage in these European countries than in ours. Moreover, officials of European farm credit associations serve with little or no compensation, which is not the rule and practice of public or private men of ability in America. The cost of operation in this country would obviously be increased and the comparison is bad in this respect.

Your Committee is indebted to a great extent to the Honorable Myron T. Herrick, formerly American Ambassador to France, for his very able and exhaustive book entitled "Rural Credits" and for statistical information which is quoted in this report, who, while advocating the rural credit bank, realizes the futility of Government owned or fostered institutions.

Rural credit banks in European countries are permitted to loan 50 per cent of the value of land, and in some cases this ratio is increased to 66⅔ per cent. In most cases this does not include the value of buildings or but a fractional part thereof. The rules and laws governing the loaning of money are more or less stringent, in some instances requiring supervision of crops, compelling occupancy by the owner, general inspection of the property from time to time, in order to avoid the possibility of deterioration through unwise management. Loans are frequently made for long periods — twenty-five, thirty-five and as high as fifty years. Loans running a long time require partial payments on principal or the creation of a fund for that purpose. The plans differ but the result is practically the same and tends towards the general reduction of principal — a more or less equalization of interest and principal payments, i.e., as the interest charges decrease through the payment on account of principal, principal charges increase — amortization in other words. It is evident that loans thus effected by mortgage loan banks in European countries are made with care, with a tendency to undervalue rather than overvalue. At least a substantial equity exists and this, in a large number of cases, is taken advantage of by the owner through the medium of a second mortgage. These second mortgages are extremely popular in European countries with private investors, and capital thus employed commands substantially higher rates of interest.

If the figures of our Department of Agriculture are correct and the average rate of interest on mortgage loans in this country is 7.75 per cent, the disparity in rates is not as great as might appear. We must take into consideration that in well-settled agricultural sections of America, any farmer owning and occupying an improved and productive farm has means available (in fact is importuned) to borrow money from both local and foreign lenders at comparatively low rates. These rates have sunk as low as 4½ per cent. Large sums have been placed at 5 per cent — and 6 per cent is considerably more than the average, in the majority of instances including commission charges. As a matter of fact, such loans have been so popular that in older sections farmers have frequently borrowed at less interest rates than thriving municipalities have been obliged to pay on long term bonds.

This class of lenders will not accept loans which average over 40 or 50 per cent of the value of the property. Farms are closely inspected; titles most carefully examined. Such loans are usually made for a period of five, seven, and, in some cases, ten years, and, generally speaking, do not call for partial payments of principal. The class of farmers who pay a high rate of interest in these well settled countries are those who are compelled to borrow, for various reasons, a much larger percentage of value. These loans are largely taken by local investors, who can afford to assume the necessary risk and who are compensated by larger interest returns than can be obtained on loans of a more modest percentage of value. It is true that in newer sections of our country, where to some extent the risk is greater and land values are less permanent, local capital is not in conflict with outside capital and considerably higher interest is required, but as each section of the country develops, the downward tendency of rates is inevitable. The same rule applies to commission charges; competition has regulated this in the older and wealthier sections and will have like effect in other sections as per capita

wealth increases or investors become better acquainted with the value of the security.

It is pointed out that the frequent renewals of loans each five or seven years is a continuing and repeating source of expense which might be avoided through the issuance of long time obligations. Investigation on the part of your Committee warrants us in making the statement that we do not believe the average farmer would welcome a loan running ten or fifteen years, to say nothing of twenty-five years. One of our large life insurance companies, which purchases farm mortgages very extensively and holds many millions of dollars of this class of security, loaning in various fields and various sections of the country, informs us that its average interest rate is 5.29 per cent on such loans and that the cost of carrying these loans on its books is .2 of 1 per cent, reducing its net income rate to 4.80 per cent on 5 per cent loans and 5.30 per cent on its 5.50 per cent loans. Its percentage of repayments, moreover, is startling — 31.61 per cent of the loans in any given year are paid in advance of maturity; 30.32 per cent of the loans in any given year run to maturity and are paid in cash; 34.20 per cent of the loans in any given year run to maturity and then are extended. It would therefore seem that of all the farm indebtedness owned by this institution, only 34.20 per cent of its borrowers could possibly desire loans running longer than five or seven years' time.

The mere fact that money could be made available for farmers for borrowing over a long term of years certainly would not, at the offset at least, solve the difficulty if difficulty exists. Farmers would have to be educated to the advantage of borrowing money on long time; a large percentage, moreover, would object to an enforced partial payment on the principal, preferring to make their partial payments, as has been their custom in the past, whenever funds are available. By far the greater percentage of farm mortgages bear partial payment privileges at interest paying dates.

The class of farmers who need assistance and who could afford to borrow money on long time on a general amortization plan are those of comparatively small means, who desire to purchase a home, making a small cash payment, and by industry and frugality pay for their properties. This frequently means that the farmer desires to borrow 75 per cent to 90 per cent of the cost price of his property. He would frequently be handicapped with loans calling for partial payments on any amortization plan, owing to the fact that all of his surplus income would be needed for improvements on his property. How to care for this class of farmers is a great difficulty.

It has been the experience of your Chairman, who has loaned large sums of money to farmers, that there are many worthy farmers — young men, capable of intelligent management of farms, and prosperous tenants who have had experience, — who need assistance of this nature but such assistance naturally would be impossible through any system of land credit banks. The risk involved would be too great. The tendency (as in European countries) would be to mortgage their properties with the land credit bank for all they could procure and secure the balance of their means through the medium of a second mortgage, which would necessitate the payment of considerably higher rates of interest. A second mortgage loan in this country has never been popular.

Moreover, the question of title will play an important part in the operation

of land credit banks. In many sections of our country titles are badly mixed. Carelessness in the old days in recording deeds, discrepancies in conveyances and omissions of releases of mortgages that have been paid would make it impossible for land credit banks to consider the security or at least expensive work to correct and perfect such defective titles. As against this, the local investor, knowing the history of the property and feeling confident that no successful attack could legally be enforced, or being willing to assume the risk, in many instances does not consider the imperfect title a particular detriment to the loan value.

It has been claimed that exorbitant usury is often charged on open accounts by dealers in farm machinery, merchants and others, and without discussing this in detail it must be borne in mind that the large percentage of these debts is owing by farmers who have already mortgaged their properties for a liberal percentage of value or who own no real estate, being of the tenant class, and therefore have no means of funding their floating indebtedness through a permanent loan, and this difficulty would not be overcome through the establishment of land credit banks. Practically the same conditions exist to an even greater extent in our cities where people of little or no means are obliged to pay exorbitant rates — the security and the rate go hand in hand.

The boundary lines of farms in most sections of our country are ever changing and do not remain an undisturbed entity through continuing generations. Farms are added to; taken from; a 500-acre farm may be cut up into four of smaller and irregular size or a farm of 40 acres added to by the purchase of an additional tract. Moreover, a large percentage of our farmers own their properties with not only the productive value in sight — the income to be derived, but with the further hope, prospect and reasonable assurance of increase in value and consequent profit. All of this provokes changes, frequent sales in whole or in part. Indeed, when age creeps on, what is more natural than for the prosperous farmer who has done relatively big things to "sell out" and select a home of small acreage near some thriving community? The point is, that now and for many years to come our farmers will shy at long term loans, looking forward or anticipating the possibility, as they do, of "selling out" in whole or in part or of adding to their holdings. They do want a convenient method of borrowing and ease of negotiability of their mortgage loans. This, to a considerable extent, has been brought about through farm loan companies, farm loan dealers, local bankers and the natural increase in local wealth; the ever-increasing investments by our large insurance companies and savings banks have also had a marked effect on rates.

One of the difficulties at the present time in the distribution of farm mortgages is the varying denomination of loans. A mortgage loan may be for $850, for $3,300 or for $9,700 — odd amounts, usually all in one note, compelling the investment on the part of one individual or one institution. This difficulty was foreseen in the very early nineties at which time mortgage loan companies with quite large capital were operating extensively in the middle western states. One form of their distribution to investors consisted of the pledging of their mortgage loans against an issue of debenture bonds — a miscellaneous lot of farm mortgages, liens on properties in various localities, drawing different rates of interest, varying in amount and aggregating say $100,000 or larger sums, were deposited with some financial institution as security for an amount of bonds equal or nearly equal to

the principal of the mortgages pledged. These bonds or obligations of the issuing company were in convenient denominations of $500, $1,000 or multiples thereof. As the interest on the farm mortgage pledged was paid, the proceeds were used to care for the interest on the obligations of the company. The life of these mortgage loan companies was comparatively short; the tendency was to make unwise loans. The lender knew nothing of the security; he had confidence in the issuing company and experience proved that this confidence was misplaced.

The experience of the writer many years ago may serve as an illustration of attempting the distribution of guaranteed farm mortgage loans. In completing negotiations with a large financial institution to represent it in the lending of money on farm security, the writer was asked to guarantee all loans. The reply was to the effect that this was not considered good business and a frank refusal to comply with the request. The answer came back promptly, closing the contract, with the statement that their letter was simply a "try-out" and that they had long since enforced a rule of never purchasing a guaranteed mortgage, considering that anyone so loose with his own credit would not be a proper person to have charge of their funds. The question is if, even at this late date, the ruins of the early nineties have been so far forgotten that investors will again consider that a guaranteed farm mortgage is a selling feature.

Difficulties of this nature may be overcome or the danger minimized through wise laws and some system of inspection by nationally chartered land credit banks. Nationally chartered and nationally inspected farm mortgage banks might tend to solve some of the difficulties of the present system of distribution of farm mortgage securities. Any direct aid on the part of the Government, any moral or legal responsibility of the Government in the exemption of such securities from local, state or national taxation is unwise. It not only smacks of charity but prefers one class of securities above another. We are of the opinion that farmers of our country are too aggressive and too independent to desire anything that smacks of charity or grants them a beneficial right over other industries. A step of this nature is but one towards similar aid for other industries — public utility properties, railroads, to say nothing of the insistent clamor and right of property owners in towns and cities to be treated with equal favor. The whole idea of Government aid implies expansion in credit. It is the old "16 to 1" idea expressed in a different manner.

Your committee moreover doubts the wisdom of state chartered land credit banks. The movement should be a national one. The same right should exist to each and every community; no special favors should be created through the passage of state laws, each of which naturally would be different in nature and effect and which, no doubt, sooner or later would bring about a chaotic condition of affairs and certainly would not increase the popularity of farm securities. A number of the land credit banks in European countries are mutual concerns; each member gives his own obligation and in doing so generally and severally guarantees the obligation of all other members and of all debentures or issues of securities by the issuing bank. Certainly the farmers of this country are too independent and would never accept such an obligation; they are perfectly willing to assume their own liabilities but not the liabilities of others. They are not willing to sink to the low level of a joint or mutual pledging of their assets.

Any system of inspection and of decision on the value of farm properties for loan purposes on the part of our Government would be too complex to be practical for a moment. If, through responsibility on the part of our nation, a market value were created for farm mortgage securities, the farmers of remote sections, of new and unimproved countries, owners of lands embraced in worthy and unworthy irrigation and reclamation districts would insist upon the right to borrow and borrow liberally upon their properties, equal to that of farmers in old and well established agricultural communities such as Ohio, Minnesota, Missouri, Kansas and many other states where values are firmly established and where a comparatively easy sale makes their real assets of a liquid nature, as against the difficulty of sale and uncertainty of value in newer or less developed and less wealthy communities.

Conclusion: Political clap-trap, favoritism, would be an insistent and almost impelling argument as to the value of property and wisdom of loans. The whole thing in a nut shell is that the loaning of money on farm security, involving the investment of considerable sums of money, is a highly specialised and intricate matter, requiring ability, experience, knowledge of values, personal inspection, modern selling methods and contact with individuals and institutions who have confidence in the integrity, ability, distributive power and, last but not least, capital necessary for the safe conduct of the business. Any lending of Government aid or support is fraught with danger — danger to the public good and credit and danger to the reputation of the farm mortgage industry. That aid can be given through the granting of national charters to any group of able-bodied, intelligent and financially responsible men is a different subject, seemingly remote from the thoughts of present day political advocates of a system of rural credit banks and such provisions, if wisely framed in a national law, may be of aid to our great rural population.

Respectfully submitted,

WM. R. COMPTON, *Chairman.*

The President: This has been carefully considered as you will see by these two committees. The reports are certainly very able, and present a very difficult subject very wisely. Is there any comment by any member of the Association as to these reports? If so, it will be in order to have it.

Mr. Bulkley: (Spencer Trask & Co., New York): Now, I am a friend of both Mr. Wright and Mr. Compton. Some of these rural credit gentlemen from the west have asked me to introduce this resolution for the purpose of discussion, and I hope it will make both of these gentlemen happy.

BE IT RESOLVED: That while the question of rural credits is under consideration, this Association does not feel justified in giving expression to opinion on the various plans proposed at this time.

BE IT RESOLVED, HOWEVER, that this Association does most strongly

object to any plan of rural credits which shall directly or indirectly pledge the faith and credit of the United States or individual states.

BE IT RESOLVED FURTHER: That we object to and consider unwise any legislation which shall make securities for rural credits exempt from taxation.

The President: Gentlemen, you have heard the resolution; what is your pleasure?

Mr. Edminson (Wm. R. Staats Co., San Francisco): That resolution is directly contrary to the recommendation of the chairman of the committee, and I doubt whether it is called for by the report of Mr. Compton, and certainly it does not go far enough for his report. I think the situation by that resolution is entirely taken care of by the constitution of the United States, and the constitution of the various states. Congress would have no power whatever to pledge the credit of the United States by any class legislation of that description. It would have to go as an amendment to the constitution, and the constitution of the various states specifically provide that the legislature must not pledge the credit of the state except in the special exemptions given. Therefore, why pass any useless resolution?

Mr. Wakefield (Wells & Dickey Co., Minneapolis): You perhaps know that our company while engaged in the other line of investment banking is also engaged in the farm mortgage business, and it is quite evident, I believe, that there is a general lack of information among the members of this Association as to the progress that has been made along the line of rural credit legislation. It is only a few weeks ago that the chief investigator for the Government visited our city in traveling through the country, and visiting other points where mortgages are universally made, and in discussing the matter with him we discovered that those who were in charge of the investigation at the present time, and all of those who are on the committee appointed by Congress are of the opinion, as far as we can learn, that it would be absolutely contrary to good business practice to attempt to furnish money through the Government, by the sale of Government bonds, or any other way, for loans on farms and lands, or rural credits. So as far as I can learn there is no sentiment today which would seem to indicate any great danger from that source.

Another thing which I would like to mention at this time is that in the opinion of those of us who are engaged in the business,

and have been for some time, there is perhaps a greater danger which faces us as dealers in mortgages, than any other, that the mortgage business may soon degenerate into the same condition, or into the same reputation as the irrigation bonds, and the timber bond situation today; that is, that there is nothing today that will sell so easily as a mortgage on farm land. The demand for that class of security is simply beyond the possibility of supply; it is impossible to fill it. On the other hand, in our section of the country, there is a new man going into the mortgage business every day of the week. I presume there have been over five new concerns opened up in the last few months in our city, all practically inexperienced in that line. Competition for loans has gone so far that a man who has a piece of land can borrow and it does not make any difference whether that man is good or not. We feel that perhaps there is a considerable amount to be gotten from the line of emphasizing the dangers which are before us from that source. [Applause.]

The President: Is there any further comment?

Mr. Dinkins (Interstate Trust & Banking Co., New Orleans). In view of the activity of politicians in the direction of favoring the assumption of credits of the farmer and in view of the attitude of this Association, and in view of two reports that have been filed, it seems to me that the Association is about in the same position as a newly married couple that I heard of, who at the end of an extended honeymoon, after breakfast, when one member said "It would be very delightful now to meet a friend, wouldn't it?" and after some thought the other replied "Yes, or even an enemy." [Laughter.] As there is so much publicity on both sides of this question, and it has not been thoroughly digested by the membership, I am inclined to think that the recommendation of the standing committee should be adopted, that we take no action at this time.

Mr. Wright (H. P. Wright Investment Co., Kansas City): Mr. President, the only difference between the special report and that of the standing committee is the matter of the expediency of making a declaration at this time. Now, it seems to me that the situation is just like this: If I see a man roaming around my town, and I think he is liable to go crazy — he is showing some bad signs that I don't like—now, I am not going to rush up and tell him not

to go into my part of the town, and upon my lot, I am not going to serve notice on him — I am going to wait first and see if he is going crazy, I am going to wait and see if he starts in that direction or the other way. [Laughter.] Now something is going to happen in that direction, and you don't know what it is; you haven't the slightest idea what it is going to be, and I am opposed to that resolution, or that warning to keep out of our preserves, and out of our melon patch. The issue will be defined in the next few months, and then if it comes our way, let us encounter it.

The President: So far as I know this resolution has not been seconded.

Mr. Bulkley: Well then, I don't see any use in talking any more about it. [Laughter.]

The President: Do I understand it has been seconded?

Mr. Bulkley: No.

The President: Then I understand it is just a remark. The next business before the meeting is the report of the Committee on Constitution and By-laws. In the absence of Mr. N. D. Jay, chairman of that committee, I will ask the Secretary to read the report.

The Secretary: Pursuant to a report embodying section one, article three, the committee presenting this report said in part: "At a recent meeting it was voted to recommend an amendment providing that the retiring president of the Association should become an ex-officio member of the Board of Governors for one year, thereby retaining for that period the benefit of his knowledge of activities and progress. In pursuance of the foregoing, members are hereby notified the following amendment will be voted upon at the Fourth Annual Convention."

done to make it more pleasant, and I am sure that each and every one of us thank every one of them from the bottom of our hearts.

[*A rising vote of thanks was taken, which passed unanimously.*]

Mr. James N. Wright (James N. Wright & Co., Denver): I would like to announce there is no program set for tomorrow morning in the way of entertainment. Everybody go as you please. There are a number of very interesting trips through the park that I am sure will be taken by most of you, and I only want to suggest that you start in plenty of time to get down to the site where the fish fry will be tomorrow, between 12 and 12:15. It will be about four miles down the canyon. There is one trip which has been suggested which would take about two hours, and will give you all, I think, the best idea of the park and the surrounding mountains, that can be made in a reasonable length of time, and that is called the High Drive. It goes from here to Horseshoe Park across the divide, from the main park, then across back into Estes Park again, and with a fairly good car, it will take about two hours. That will require starting about ten o'clock, possibly before. I will also make the suggestion that those who take that trip go by way of Horseshoe Park. The road up the divide is very narrow, so all of those who wish to go will please go that way, through Horseshoe Park. In going on farther to what is called the Fall River line, that is a road which leads over the divide, the road is not finished, and I would suggest that most automobiles — that those who are not thoroughly familiar with the road—do not go any farther than the switchback. Now, after the luncheon tomorrow, I would ask that everybody please get in their car as quickly as possible to get to Denver. We want everybody to be fully rested for the banquet in the evening. It is absolutely necessary to make the banquet a success.

Mr. Wright (H. P. Wright Investment Co., Kansas City): A year ago I had the pleasure of being chairman of the Nominating Committee, and it was our duty to select the names for this year's officers. After very careful consideration of the candidates in the field, we felt that Mr. Leach was the man to lead this Association for the coming year — in fact, we were absolutely sure. I wrote to Mr. Leach about it and he declined, saying it was absolutely impossible for him to take it on account of the immense amount of work that he had on hand, and he realized that it would take much time

and work, and that if he made any mistakes he would get the usual reward of every man who makes mistakes, and that he absolutely could not do it; and we exchanged a number of telegrams and, at any rate, I went over to New York to see him; and after a great deal of persuasion I got Mr. Leach to consent to be nominated for president of this Association for the coming year. We all know what the Association has done this year, and know how it has prospered; we know how effective it is, and I feel proud of my work with the Nominating Committee at that time, and I certainly want to express at this time to Mr. Leach my personal thanks and appreciation for the most splendid work that he has done. I know perfectly well he has made an immense sacrifice of himself, and I want to make a motion that this Association, at this time, express its appreciation to Mr. Leach, of the work that he has done throughout the year. If someone will be good enough to second that motion, I will put it and ask that those who are in favor of that motion signify by saying "Aye." [Members: "Aye."]

[Unanimously passed].

The President: Gentlemen, I thank you. When one year ago in Philadelphia, it came to me that I was really elected President of the Investment Bankers Association of America, I said to you, gentlemen, that I entered upon these duties with a great appreciation of my short-comings, with a feeling that some other man would better be able to carry that burden, that some other man could serve you better; but, I told you that, as much as was in me, I would try, and I am glad to come to you now, and give you back your trust, and say to you that I have done my best. Proud am I that the Association has made the progress that it has. It goes not to my credit, but thanks are due to the committees and the other officers of the Association who have so faithfully and earnestly endeavored to push forward this work. We live today under brighter skies. The horizon does not seem to carry so many clouds. The tomorrows have brighter promises.

I believe that the investing banking world possesses the greatest opportunity in history. I believe that the men who are in this room, and the institutions whom they represent face today an opportunity to serve their country, an opportunity to build a higher structure, an opportunity for greater profits, and an op-

portunity for greater honors, and I am glad to think this Association is united and ready for the task. I am proud too, to feel that my successor is so well able and better equipped to carry on this work than I have been, and I wish you gentlemen, each of you, and the Association as a whole the best of success.

Not with tired hands do I lay down this task, but with a willing mind, and a strong hope and belief that I can and will be of further service, and I promise to you I shall be subject to your call.

Again, I say I thank you, and I am glad indeed to have the opportunity to introduce to you Mr. Franklin, our new president. [Applause.]

INAUGURAL ADDRESS

L. B. Franklin
Vice-President, Guaranty Trust Co. of New York

Mr. Chairman, and members of the Association; I first want to express to you my appreciation of the tremendous honor which you have conferred upon me tonight. This appreciation becomes deeper when I think of what this Association is composed of; the best representatives, carefully selected, of a business that requires a most unusual amount of ability, intelligence, and education. In accepting this office, I do so with a great feeling of modesty and hesitation. The problems before us are of great magnitude, and I feel tonight as though my experience in the business world had hardly equipped me to represent this Association in the solving of these problems, but on the other hand, when I think of the three years that I have been in close association with your Board of Governors, changed in only a few respects during those three years — when I look over that body of men, remember their deliberations year after year, I have a feeling of confidence in that I know that I can be assured of the active co-operation of every one of them. Through these three years with them I have learned to admire them for their intelligence, respect them for their ability, and love them for their fellowship. It has been one of the greatest pleasures of my business life to be associated as a member of the Board of Governors, with the members of the board, during these past three years. In speaking of co-operation, I am quite sure that this co-operation

will not be limited to the Board of Governors, but that we can depend upon each individual member to do his share in helping the work which this Association has before it.

The two presidents who have preceded me have set a very high and difficult standard for any one to follow, but as Mr. Leach said last year, when he took up the office, "We can only do our best and try our hardest." Our Association has really had three quite distinct periods in its somewhat limited history. The first period, covering its organization and its presentation to the world, was one that required, particularly, publicity, genius for organization, and a general ability to boost the organization, and we may be proud of our leadership during that period. The second period which comes to most organizations of this character, and which we did not escape, was the period quite different from the first period when we hardly knew what we were doing, when it seemed as though we had endless schemes presented to us for our work, and endless problems set before us to solve. The selection of problems that really concerned our business and the rejection of those that did not was a very difficult matter, and during this period we were ably lead. It seems to me that we have now come to the point where we have solidified our position before the public of this country; we have the thorough support of the press of this country — they have been our best friends; we have just begun to appreciate where our work lies, and I believe that our watchword now should be "Concentration." We should take up a few things, a few of the very vital problems that are ahead of us, and work to solve those problems thoroughly and refrain from spreading out our work over every possible subject that may be brought before it. It is only by such concentration, I believe, that we will be able to accomplish the great and glorious work that I believe this Association is capable of.

If I might make a criticism of the Association, it would be this: that heretofore a very large part of the work of the Association has been in the hands of far too small a proportion of our membership. If we could only count on the active work of our membership of nearly four hundred, what far greater progress could we make than has already been made as a result of the united efforts of only a very small proportion of our membership. I understand the reason why many of our members have not been active;

they have felt that they have not been given an opportunity. We have, however, tried to build up, through our secretary's office, a means whereby every member can be kept in close touch with the work of the various committees, and the work of the organization in general, and if all our members will carefully keep track of the work of our committees throughout the year, bring to those committees suggestions as to their work, we can then feel that we are not accomplishing the work of our organization simply by the efforts of the Board of Governors and the various committees, but by the efforts of our united membership.

I was very much impressed this morning by the talk of Dr. Pratt who opened up a subject of intense interest at this time. It seems to me to be an indication of the enormous opportunity before the Investment Bankers Association of America, and an indication of the new problems which are sure to come before us, problems that we have never dreamed of before, and problems that, if we cannot solve, I do not believe that there is anybody else in this country that can solve them. I will not give anybody, or any other organization, any odds in the matter of intelligence over the Investment Bankers Association of America.

If our problems are to be connected with international business, instead of national business, it is not too difficult a matter for this organization to solve them. Dr. Pratt spoke of the great change in the centralization of the money power of the world during the past few years; he then spoke of the probability of our being called upon to advance credits to foreign nations. Since his able speech, I have talked with a number of members of the Association, and I have found some little feeling of hesitation over the subject of foreign loans. It seems to me there is a misconception on the subject on the part of a few of us, which a little clear thinking will remove. I have been asked why this country, with its cotton fields of the south furnishing materials for our factories, its great wheat fields of the west with a product amply sufficient to feed our entire population, its great coal mines furnishing fuel to our factories and our factories providing for our transportation and housing, why we should have to go into foreign lands to round out our business life? The question seems a fair one, and yet I wonder what would happen to the 60 per cent of our cotton from the south which is not used in this country if we could not induce

someone from abroad to buy that surplus. We are raising this year one thousand million bushels of wheat, and we will consume probably not over 600 million bushels; what would happen to the farmers of our western territory if it were not possible to sell and receive payment for that surplus of 400 million bushels.

It seems to me also that there is a misconception on the subject of foreign loans and foreign credits. There is a difference between a loan and a credit. If you loan a corporation money, the corporation is under absolutely no pledge as to what the corporation shall do with that money, but if you give a corporation credit for a certain purpose, that money remains in your control until used for that definite and positive purpose. The same holds good with a foreign loan. A loan made to a foreign nation, without any obligation as to what the money shall be used for, usually results in the money being taken from this country and used in the foreign country. A credit, however, is a deposit for the account of the foreign country in our own institutions, to be used to finance purchases from our own people, and remains in this country and is not exported, and is used only for payment of our commodities and to take care of our vast surplus of cotton, of wheat, and of manufactured goods. I have also been asked if this talk of Dr. Pratt, and also the resolution which was passed following his talk, did not smack of un-neutrality. I cannot see it. There is no nation on this globe that comes to us and wants to buy our produce, and is able to buy it, that is not entitled to a credit from this country, and there is no nation entitled to such a credit, and asking for such a credit, that should not receive the approval of this and all other similar associations. It is not a question of nationalities, gentlemen. It is a question of whether this country is willing to assume the responsibility of becoming a creditor nation, and possibly *the* creditor nation of the world, or whether we are to draw into our shell and say we are afraid to take the risk, we do not want to mix with you in business and we are going to stay here, on this western hemisphere, and keep out of all trouble and business relations on the eastern hemisphere. Is not that a small outlook; is it not broader to say that we here in the United States, insofar as we are able, we are willing to do business with the world, we have no friends or enemies, we will do business with anybody who does business in the right way; our

doors are open to China, Japan, to the countries of Europe without favor to any one or the other? Isn't that the broad-gauge way to look at it as business men? Is there any un-neutrality in that; I say to draw the line and say that we shall not do it is un-neutral. I say I do not think this Association would have gone on record this morning, as it did, if there was anything un-neutral in the endorsement of this action.

It seems to me this is indicative of some of the questions that are coming before us, and I feel proud that this Association is thoroughly organized to meet them, composed as it is of four hundred men ready to work, and I believe this Association can be one of the most influential bodies of business men in this country if we will only all get together, put our shoulders to the wheel—do not leave it to the president, do not leave it to the Board of Governors, but each one of you get off your coat and pull together and make the influence of this Association felt from the Atlantic to the Pacific. [Loud applause.]

The President: Is there any further business?

Mr. Brown (H. D. Waldbridge & Co., New York): I misunderstood our practice tonight and Mr. Leach has suggested that I should mention something that should have come up under unfinished business. I have been a delegate to this convention for four years, and listened with interest to the public utility side of it. I have learned, and I believe, there is some constructive work in the public utility line that this Association can do, and I believe it can best do it by obtaining some of the work that is being done by the state and national public utility associations. The principal work that these associations are doing is along the line of standardizing forms and contracts. I have in mind, first, their classification of accounts, and that classification of accounts is now adopted by every public service commission in the United States, and they do not think of changing it. Their classification of materials, and classification of construction work — all of this standardization has resulted in economies from the operating standard of public utilities. But they have been unable to do anything towards the standardization of their insurance. I believe they could do something along that line if they knew just what the bond buyers and the public and politicians, or the Government I should say, or the Government branches, needed. As the best

illustration that they do not know just what is desired by the bond buyers, I can give our experience with one bond issue. We wanted to refinance a profitable one. We had to go before the public service commission and state the details of the refinancing plan. We were opposed by the state officials; they came in with all kinds of criticisms, based upon data which they had secured from hundreds of different accounts of the public utility commissioners, and there was no standard. We paid an enormous attorney's fee to appear before that commission and get the right to refinance that property. We finally got it approved. Then we had to employ another attorney to draft the mortgage in detail. We got the mortgage and had action taken, then we had to submit it to the trustee of the trust company who was selected to act as trustee, and when that draft came back to us it had so many "hanging baskets" on it that we did not recognize it. Then we got it accepted finally, and then took up the sale of the bonds with some of these gentlemen, members of this Association. One of them submitted it to the attorney and he had some suggestion to make involving a supplementary mortgage. We did not want to do it, so we took it to another and he submitted it to his attorney who had another suggestion, but not the same as the first one had made. We took it to another banker, and he said "If you will get me the opinion of Mr. 'So and So,' it will cost you a great deal of money." We did not do that; we finally sold the bonds ourselves, or a large portion of them and then got inquiries from small houses, and not one of them asked to even see the bonds. They did not care what the provisions were, only they were perfectly willing to sell them. Now, I do not believe that among those bond buyers there is any considerable percentage of them who know all the provisions, or even the vital provisions of a public utility mortgage. They ask certain questions and ask for the opinion of an attorney upon whose name they will sell the bonds, but they cannot be blamed for their lack of knowledge, because they would have to be schooled for the public utility mortgage writing of today. Every lawyer has known of it, but writes some clause of it in a different way from the other lawyer. Now, when we do not show sufficient knowledge of our business to standardize our forms, we need to have other people who think they know more about it than ourselves, and I refer particularly to

the people who make our laws, and lead us, and it hurts every time. The result of the work done by those different operating organizations is that they have secured decisions from the public utility commissions that are, in nearly all cases fair to the public utility. We keep on wasting our money and we do not get anywhere. I believe that it is possible for a committee, but it involves a great deal of work, and the best expert advice to draft standard forms for each of the principal, in fact all clauses that should go into a public utility mortgage, whether gas, electric or railway, and they could be adopted as the Investment Bankers Association of America standard; and I believe that standard printed in pamphlet form and sent out by our secretary could be used, and would be used by all the public utilities companies which have mortgages to create; and when it became known, as it would be, that we have the standard of the Investment Bankers Association of America that pamphlet would be referred to by the lawyers who have the compilation of these mortgages in hand, and when they selected a clause that was after the Investment Bankers Association of America standard, and it was referred to a trust company—the attorneys for a trust company—it would be accepted, and every member of the Association, when he picked up a mortgage and found it complied with the Investment Bankers Association of America standard, after having once familiarized himself he would know what that mortgage meant, and he would not have to refer it to an attorney, and he would not have to multiply this expense. If we could have put that mortgage through on time, we could have had our bonds to sell at a period when they could have been sold, and would not have had to have carried them and sold them at prices that entailed considerable loss to the company.

Now I do not mean that that standard should specify the terms of the bond, the rate of interest, and various and other sundry essential features of a mortgage and bond issue, but I do mean it should specify and give the form in which all the clauses of any such mortgage should be written; and once that were done I believe it would be followed, in fact I know that all big operating syndicates who are members of this Association if they participate in the adoption of that standard form, I know they would use it, because it would save them untold amounts of money; and I be-

lieve the same principle will apply, not only to mortgages, but to various and other forms used in the refinancing or financing of public utility properties. I believe further, if this Association would standardize certain practices, or express an opinion of the majority as to the public utility mortgage, the vital features of it that they want, it would be acceptable to our members. I believe you will find the public utilities companies following these requirements, and further the fact that they have been adopted by the Investment Bankers Association of America will have an influence on politicians in their framing legislation, which up to now has been so adverse. You will know that in all decisions of the public utilities commissions they have been adverse to public utilities, nearly all of them relating to financing matters. I believe we can bring about some result in decisions relating to financial matters, if we will lead and not follow. I believe the Investment Bankers Association of America can lead, and what I have in mind is that the Investment Bankers Association of America standardize the mortgages and other forms, and the result of the practice will make this the same in the financial world as the "A. G. I." means to the gas industry.

The President: Gentlemen, do you wish to take any action regarding this matter?

[Moved and seconded that it be referred to the Public Utilities Committee.]

The President: All those in favor say "Aye." [Members "Aye."] It is so ordered. Is there any other business? The secretary has an announcement to make.

The Secretary: I am requested by the Denver committee to say to the delegates, so there may be no misunderstanding, that your hotel bills are paid — at Estes Park. [Laughter.]

Proceedings *of the* Fourth Annual Banquet *of the* Investment Bankers Association *of* America

Wednesday Evening, September 22, 1915

Fourth Annual Banquet *of the*

Investment Bankers Association *of* America

El Jebel Temple, Denver
Wednesday, September 22, 1915

THOMAS BEALE STEARNS, Toastmaster

The President: I will ask the Very Reverend Dean Martyn Hart of Denver to ask the Divine Blessing.

Dean Hart: Thou openest Thine hand, O Lord, and fillest all things living with plenteousness. We gratefully accept this ample provision, and humbly pray for such a spirit of temperance that we may use and not abuse Thy bounty through Christ our Lord, Amen.

. . . .

The President: Gentlemen, the Secretary has an announcement which he would like to read.

The Secretary: Mr. Toastmaster and Gentlemen: At the White building tomorrow morning at 10:30 on the invitation of the Mountain States Telephone Company, the delegates of this convention are invited to assemble and hear long-distance telephone conversations between New York and San Francisco. At San Francisco we will talk with Mr. J. J. Fagan, of the Crocker National Bank; Mr. Frank B. King of the Wells Fargo National Bank; Mr. C. R. Parker, of the Anglo & London Paris National

Banking has always been to me a very intangible term. In my limited capacity I have always associated the word "banking" with the word "metaphysics" [laughter]; and you will remember that the Scotchman said that "When the speaker *dinna ken* what he says and the listeners *dinna ken* what the speaker says, and the speaker *dinna ken* what he says himself, that is metaphysics." That was the way I feel about banking. Now, of course I am very familiar with the ordinary common garden type of banker, the kind of a man you go to when you are in trouble, who loans you the money, and always keeps you in "red," but the investment banker to me is an entirely new experience. I have been told that he takes money away from you before you can look [laughter], and so I was very careful of what little I possessed, to leave it at home [laughter], but you know the word "investment," psychologically speaking, is derived from our Roman ancestors; it is composed of the Latin words "in" and "vestire"; some of the recent, Latin scholars, may call that "vestire," and it literally means "clothe in," and the real significance of that had never struck me until I remembered that when all these evidences of indebtedness with which the investment bankers loaned you are made on linen paper, and they are usually luminated with bright colored inks so that you are in reality, when you acquire a sufficient number of them, "clothed in purple and fine linen." Then, you know, it was only a step from "clothe in" to put the plural "close," so today the investment banker is really the gentleman who closes in [laughter]; and when you get enough of his securities you know that you are closed in for all time. [Laughter.]

Many years ago, in the heyday of Colorado, when one could indulge in the games of chance without restriction and without fear of arrest, there were two gentlemen in the town of Del Norte in this state, who, after a very hard evening, retired in the wee small hours for a little needed repose, and they placed under their pillows very carefully the weapons of defense which were very necessary in those days. One of them had lapsed into slumber; the other was approaching that delightful state, when he heard a noise, and, looking up, saw a man coming in over the transom; so he nudged his partner, and he said, "Jim! Jim! Wake up, wake up." "Aw," he says, "let me alone; let me sleep." He

said: "Jim, wake up, wake up, there's a man coming in over the transom." "Aw," Jim said, "let the son-of-a-gun in and we'll rob him." [Laughter.] Now, gentlemen, that is a good deal the way I feel tonight — I feel like the fellow coming in over the transom. [Laughter.] But, I really think that the investment bankers, while they are here — and I would neglect the opportunity and my duties, as a citizen of Colorado, did I not direct their attention to some of the very desirable things which we have to present to them. Among others, is a railroad — but you are a little late — we have a railroad which starts on the suburbs and which ends on the plains. [Laughter.]

It unfortunately has vanished, so you have lost your opportunity but I cannot but recall an interview between the president of this railroad and the tax commission of Colorado. The president was put on the stand and the tax commission interviewed him. They said, "Will you kindly, Mr. So. and So, give us a list of your employes in Colorado, on the Colorado-Eastern Railroad?" [Laughter.] "Why," he said, "Yes, I can do that. We have a conductor and a brakeman, and an engineer, and a fireman, a station agent, a section boss, and a newsboy — a train hand." "Yes, Mr. President, all, as I understand it, combined in one individuality?" [Laughter.] "Yes, sir," he said. "Did it ever occur to you, Mr. President, what would happen, if the conductor, and the brakeman, and the engineer, and the fireman, and the train boy, etc., should get ill?" The President said, "I have never contemplated the result of such an epidemic." [Laughter.]

Now, gentlemen, the first speaker of the evening is a gentleman who is very distinguished in the United States. He was a very prominent member of the Monetary Commission. He is the author of a very valuable treatise on financial crises, and he is an author in your own line of action — in finance. I would say, incidentally, that he comes from a very distinguished line of ancestry. In the seventeenth century one of his ancestors, whose name was Roberts, edited a textbook which in that day was standard, and was known as "The Anatomy of Melancholy." [Laughter.] Later on, in the seventeenth century, another ancestor of the distinguished gentleman — Sir Richard Francis Burton —of whom you have heard, edited a very delightful and none theless delightful because unexpurgated — edition of the Arabian

Nights. [Laughter.] The gentleman is to address us this evening, and we are trusting that the treatise which he will deliver will be a gentle admixture of the writings and essays of his illustrious ancestors.

But soberly speaking, we all are deeply appreciative of the honor conferred on us by the visit of Ex-Senator Theodore E. Burton of Cleveland, to us today. At the request of the committee, before Senator Burton will unburden himself of his message on "The Effect of the Present Conflict Upon Rates of Interest and Upon the Business of the Investment Banker," we are requested and it is made a great pleasure to propose a toast of this assemblage to the President of the United States. [Applause.]

I want to say just one word, gentlemen, that we all owe, in my opinion, a great deal to Senator Burton. The last time I heard the distinguished gentleman speak was at the meeting in the United States Chamber of Commerce in Washington last February, and at that time he was engaged in calling the bluff of our distinguished Secretary of the Treasury, Mr. McAdoo [laughter], in his endeavor to stack against us the "ships that pass in the night" in the great national game.

I present to you Ex-Senator Burton. [Applause.]

Ex-Senator Theodore E. Burton: Mr. Toastmaster, Ex-President Leach, President Franklin, I am very sure that a mingling of the melancholy of Robert "and the imagination of Richard F." would be far more interesting to you than anything that I shall say tonight. By the way, Mr. Toastmaster, I think possibly you are a little off in your dates of Richard F. It may be well to revise that a little bit.

The Toastmaster: I would say that I extracted that from the Encyclopædia Britannica at four p. m. this afternoon. [Laughter.]

THE EFFECT OF THE PRESENT CONFLICT UPON THE RATES OF INTEREST AND THE BUSINESS OF THE INVESTMENT BANKER

HON. THEODORE E. BURTON
Ex-Senator from Ohio, Cleveland, Ohio

There is some incongruity in an after-dinner address upon the subject chosen. It is impossible to treat such a topic in a popular manner. Nevertheless, the most thorough study of the bearing of pending events upon the future of investments is of the utmost value to the members of this Association, and to everyone.

We have too much of superficial thinking. Men form permanent opinions over night, or as the result of a tumult of applause from the gallery. One of the most prominent of our public men, in a recent address to the graduates of a business college, stated that the young man who wrote a brilliant epigram and gave it to the newspapers for publication gained more eclat than the student who devoted two years of severe study to some important question.

I wish to say a word on behalf of the student who, in a painstaking manner, devotes two years of his time to study. In the long run, he confers a greater benefit than the brilliancy of the epigram can possibly furnish. It is a fact that men sometimes engage in ventures when, if they were to take a sheet of paper with a lead pencil and figure for an hour, balancing the probable receipts and expenses and taking account of contingent and incidental features, they would recognize that the investment would be unprofitable.

Before entering upon a specific treatment of the subject chosen, it is well to consider some basic principles. What makes borrowing and investment on the present colossal scale possible? Why is it profitable for a considerable number of able and active men to devote their time to bringing together the investor, who is willing to part with his savings, and the borrower, who desires credit for the prosecution of some promising enterprise? It is the existence of capital—and what are the definitions of capital and the concepts associated with it? Capital is a form of wealth.

Wealth comprises all things which are alike useful, limited in supply, and transferable, i. e., capable of individual appropriation. All wealth is produced from or created by land, labor, or capital. Land includes not only the surface of the earth, which is cultivated, or is the source of minerals, but, technically defined, it comprises every form of nature in earth, seas, or air, together with the natural forces which may be set at work, such as water to drive the wheels, wind to propel the windmill, or the heat of the sun which ripens the crop. It is the source of all so-called raw materials, whether the product of agriculture, or of the mine. Labor includes physical strength and exertion, and the mental qualities which furnish them with method and ingenuity.

Capital is that part of wealth which is withheld from immediate consumption for the purpose of producing wealth in the future. It is either circulating or fixed. The former includes food, clothing, and fuel for support of those engaged in the production of wealth, necessary seed for planting, raw material for the finished products of manufacture, money to be paid out by the employer for wages and the purchase of supplies. The characteristic feature of circulating capital is that it is exhausted or performs its functions in a single use, while fixed capital can be used more than once in the same way. Thus fixed capital comprises articles of a more permanent nature, such as tools, machines, factories, buildings occupied or used by those engaged in productive employment, improvements upon land, likewise, ships and railways, with all their equipment. It is not the abundance of land or natural resources which determines whether nations are rich or poor, but the abundance or scarcity of capital.

Land is an invariable quantity in the creation of wealth; that is, its productiveness cannot be augmented except by the application of capital or labor to derive or extract wealth from it. The creation of wealth requires the co-operation of labor and capital. To use a comparison of a prominent writer upon economic science, they are like the two blades of a pair of scissors. The results which can be secured by labor without capital are practically invariable. The efficiency of labor cannot be increased without the tools which capital furnishes. Capital, on the other hand, with the co-operation of labor, and land to work upon, is capable of indefinite increase. As stated by John Stuart Mill: "Industry

is limited by capital * * * It cannot be employed to any greater extent than there is capital to invest * * * There can be no more industry than is supplied with materials to work up and food to eat." The farmer devotes his seed to the raising of a crop. After allowing for its value, and for the cost or value of his plowing, reaping, threshing, and marketing, there is presumably a surplus, which means an increase of capital. The immediate evidence of this increase may be a deposit in the bank; but such deposit nevertheless indicates an increased amount of goods, which signifies a greater amount of capital. The mason, or the carpenter, working upon a building, aids in providing something which will serve either as a residence for those engaged in production, or as a factory or other structure for the purpose of manufacturing. The amount which he is able to save from his wages over and above his expenses is also an increase of capital. Viewed from the standpoint of the manufacturer, the value of the finished product over and above the cost of production means an increase of capital.

As a result of a constant advance in scientific progress, with greater security of accumulations and consequent ease in obtaining a surplus, modern life has shown a constant tendency toward an increase of capital. The consequence is that a great amount of capital is deposited in banks, trust companies, and various savings institutions, the use of part of which is deferred for a short time, the rest for a long perod. The former class of deposits is available for short time loans, the latter for long time investments, largely for the creation of fixed capital. Short time loans have to do, for the most part, with circulating capital. They are temporary, and depend upon an early return upon the capital invested. Much of the aggregate of the resources of financial institutions is based upon the fact that the demands of different persons for loans arise at various times of the year. One person requires credit at one season, and another at another, and there is a temporary surplus when capital is not required.

The orderly, normal course of credit depends upon the reproduction of capital by borrowers. For example, it is expected that the expense of seed for wheat, and the labor for planting, plowing, harvesting, threshing, and marketing, will at least be paid for by the product.

The conditions which appertain to short time loans only partially apply to long time investments. To repeat, the former have to do, for the most part, with circulating capital, the latter, in a larger degree, with fixed capital. Short time loans are, for the most part, made from the surplus which is likely to be required in a short time. Long time loans are made from acquisitions of capital not required at an early date, or set apart for permanent income. Accordingly, the rules which govern rates of interest on short time loans are quite distinct from those applicable to long time loans or investments. There may be an abundance of loanable capital, the use of which owners can postpone for thirty, sixty, ninety, or one hundred and twenty days, but a scarcity of money, with the use of which the owner can part for a longer period, or vice versa. As a consequence, short time rates may be low, and the interest on bonds may be high. Of course we cannot overlook the factor of the prevalent degree of confidence, which must always be recognized. This ordinarily affects long time investments more than those for a limited time. It has been a feature of the London money market of late that call loans and those for a short time can be obtained on very favorable terms, while the rate of interest on Government Bonds or stock has risen to the highest figure since 1831. The same is true of the New York money market.

What are the factors which determine the rates of interest? Stated generally, it is the relation between the supply of available capital and the quantity required for the various enterprises and activities of our economic and social life. More simply stated, it is the relation between the demand and supply of capital, just as in the case of a commodity.

It is often said that the rate of interest depends upon profit. There is a very substantial difference between rates, dependent upon localities, risks, and the probable success and profits of enterprises, but for the discussion of this subject and examination of this theory is not necessary. The determining factor may be regarded as the proportion between demand and supply.

There can be no question that capital will be enormously diminished by the war, partly by actual destruction, but much more by diversion from productive employment. Under the first head is included the sinking of merchant ships, the burning

of factories, and the devastation of agricultural areas in the theater of war-like operations. Of the same class, though less startling, is the stoppage of industry, as by the withdrawal of the ships of Germany and Austria-Hungary from use because of blockade or internment, the diminished producing capacity of factories and farms, because so large a share of the workers formerly engaged in them were called from their usual occupations to serve in the armies. More serious, however, in its ultimate effect is the diversion from productive employment for the support of armies. The number of men (now, or formerly) engaged in military service, is estimated at 23,000,000, counting only France, England, Russia, Germany, and Austria-Hungary. Of these France furnishes 4,000,000; England, including colonies and dependencies, 3,000,000; Russia 6,000,000; Germany 6,500,000; Austria-Hungary, 3,500,000. In addition to these, Italy has at least a million men in the field. The withdrawal of approximately twenty-five millions of men from the normal fields of production must have an effect which can scarcely be measured.

The cost of the maintenance of so many millions in the field is enormous. There is a common fallacy that the money paid for the food, maintenance, and wages of these millions of men, and the munitions which they use, is received by some one, and that the amounts paid out by the governments involves merely a change of hands and thus the course of industry will not be interfered with. This delusion, for it is nothing less, overlooks the elementary fact that soldiers in the field are not employed in adding to the world's store of productive goods, but in shooting each other. Capital cannot be increased except by its utilization in the creation of articles which can satisfy human wants, as by the creation of some object of utility, such as food, drink, clothing for immediate use, or buildings and equipment for future production. If these twenty-five millions were engaged in planting wheat, or in constructing buildings for housing the people, the world's capital would be vastly increased.

The loss in capital must surpass that of any war, in fact, all wars for a century and a quarter preceding the outbreak of this contest. No inference derived from the Civil War of 1861–1865, from the Franco-German War of 1870–1871, or even from the Napoleonic wars, can furnish us adequate comprehension of the

ruin which will be wrought by this titanic struggle. The present war appalls us by its vastness. It is a fight for life between nations, in which the progress of civilization, the industrial development of more than half the people on this globe, are utterly disregarded in a death grapple for victory. Mr. Edgar Crammond, a prominent English statistician, has made a computation of the losses of the first year of the war to July 31st, 1915. He figures the aggregate wealth of Belgium, at the beginning of the war, at $12,000,000,000; the losses to July 31st, 1915, at $2,632,500,000, or more than one fifth of the whole; the wealth of France at $58,375,000,000, the losses of one year of war at $8,432,000,000, or more than one seventh of the whole; the wealth of Russia at $62,000,000,000, and the losses of the first year of the war at $7,520,000,000, or a little less than one eighth of the whole; that of the United Kingdom of Great Britain and Ireland at $82,900,000,000, and the loss at $6,290,000,000, or more than one-thirteenth of the whole. Germany with a wealth of $75,000,000,000 and loss of $13,885,000,000, more than one sixth of the whole; Austria-Hungary, wealth, $55,000,000,000, loss at $7,940,000,000, or one-seventh of the whole. The total destruction of capital of all the above nations is figured at $46,689,950,000. It is true he includes in the estimate the capitalized value of the human lives lost, computing the value of these at $11,000,000,000; but there seems to be no reason why, in view of the diminished production which must result by losses by death and by wounds, this should not be done. The gross annual income of the United Kingdom of Great Britain and Ireland is estimated at $10,700,000,000. It is a matter of conjecture what share of this gross income is saved and thus becomes an addition to capital, probably not more than one fourth, or say $3,000,000,000. On this liberal estimate, which is undoubtedly too large, it would require the surplus income of more than two years under normal conditions to make up for the loss of one year of war. In the case of the other nations, the time required would no doubt be much longer. It must be noted that this is for one year only, and there is no present prospect that the war will come to an end. Evidently there will be an absolutely unprecedented destruction of capital, and consequently resources for borrowing will be enormously diminished.

If the other factor in determining the rate of interest, demand, continues the same, it is evident there will be a very unusual increase in the rate of interest for, as already stated, the rate of interest depends upon the relation between the supply of capital and the demand for it. Will the demand continue? Before seeking to answer this inquiry, a fact of vital importance should be noted, and that is the increase in rates of interest, at least on long time investments, which occurred in the years before the commencement of the war. Minimum rates of interest on bonds, and of return on stocks and maximum prices were reached in the United States about the year 1899. From the maximum quotations of securities, and consequent minimum rates of interest attained in that year, there has been a gradual, though irregular, decline. The same condition was in evidence in the European markets. English Consols, a standard investment, furnish an excellent illustration. After April 5th, 1889, the rate of interest upon these was 2¾ per cent; after April 5th, 1903, the rate has been 2½ per cent. The yield upon the average annual value in 1899 was £2, 11s., 6d., per 100 of value. In 1907, it had risen to £2., 19s., 6d., or a rise in the rate of return of 15½ per cent; by May and June of 1914, there had been a further increase in the yield upon the quoted price to nearly £3, 7s., or an increase over the year 1907 of 12.6 per cent, and an increase over 1899 of 30 per cent.

The average price of Consols in 1899, when the interest was 2¾ per cent was 106⅞; in 1907 at 2½ per cent, 84; In May and June, 1914, 74.7. A similar fall occurred in the years preceding the war in French and German Governmental Three Per Cents; French rentes were quoted in 1908 at 96.2, in May and June, 1914, at 89.75, a fall of 6.45 points in six years. German Three Per Cents were quoted at 85.2 in 1908, in May and June of 1914 at 77.4, a fall of 7.8 points. Russian Four Per Cents, because of the improved credit of the empire, increased in value from 1908 to 1912, but in the two years from 1912 to 1914 fell from 93.9 to 88.95, a fall of 4.95 points in two years. Canadian Three Per Cents fell from 107 in 1896 to 82 in 1914. This last illustration is a valuable one, as it shows tendencies in the securities of a new and rapidly growing country.

The same tendency is manifest in railway and high grade

securities. The five per cent debenture stock of the Great Western Railway of England sold for 202 in 1896, yielding less than 2½ per cent; in 1914 it was 125, yielding 4 per cent. After making due allowances for all extraneous influences, such as political agitation, the larger indebtedness of the principal nations, the greater offerings of foreign and other bonds paying high rates of interest, there can be no explanation of this uniform rise in rates of interest, but a greater strain upon capital. What is the explanation of this phenomenon? It was at one time regarded as an axiom by some economists that in the progress of years, with the growth of capital and wealth, greater security of property and readier enforcement of contract rights, rates of interest would decline. Attention was called to the lower rates of interest in older countries of high development and large wealth, and in the older or more advanced portions of the same country. The German economist, Prof. Roscher, states that, with an advance in civilization, the rate of interest is wont to decline. He says that one of the chief causes of this is the necessity, as population and consumption increase, to employ capital in the fertilization of less productive land and in less profitable investments.

He also states that the decline of the rate of interest shows itself earliest in the large cities.

In a painstaking article on British and foreign investments, Mr. R. A. Lehfeldt gives statistics of the mean rate of return on large issues in England (including those in which the aggregate amount of the issue exceeds £900,000., and excluding those having less than seven years to run), for twenty years past.

In 1899, the average return on these issues was 4.16 per cent. In the four following years, from 1900 to 1903 inclusive, there was a recession, but by 1906 the rate of income on the value of these issues which was 4.16 in 1899 had risen to 4.48 per cent. Thereafter, with slight recessions and fluctuations, the rate rose in 1913 to 4.98.*

Mr. Lehfeldt computes that, roughly speaking, shares pay

* The following is the rate by years:

1899, 4.16;	1900, 3.35;	1901, 3.11;	1902, 3.54;
1903, 3.64;	1904, 4.31;	1905, 4.17;	1906, 4.48;
1907, 4.51;	1908, 4.49;	1909, 4.43;	1910, 4.49;
1911, 4.60;	1912, 4.97;	1913, 4.98.	

½ per cent per annum more than bonds. The writer states that in 1913 there were indications that the rate of return would be stationary. The same tendency to higher rates in the United States has already been referred to, but should be stated more in detail. Mr. Roger W. Babson, in his recent book, "Business Barometers," points out that in the fifteen years from 1899 to 1914, the average return on five issues of high grade bonds rose from 3 per cent to 4½ per cent, and that the average price of selected bonds fell during the year 1913 from 96 to 91, and by July 30th, 1914, there was a further fall to 86.5.

In Moody's "Investor's Service" for July 29th, 1915, a table is given, showing that the yearly average prices of twenty-five representative bonds in 1902 was \$99.36 per \$100.00 nominal value, \$87.43 in 1908, \$83.50 in 1914, and \$81.75 in the first six or seven months of 1915. The prices from 1909 to 1912, however, were materially higher than in 1908. Also, lower rates on new bond issues indicates a more favorable market for such bonds as were accepted in the first six or seven months of 1915, than in the preceding years from 1909 to 1914. The condition in this year 1915 is accounted for by a plurality of factors, among which are, first, the very low rates of interest on call money and short time loans. This practically compels some financial institutions to buy bonds in order that they may obtain as large a rate of interest on their investments as they pay upon their interest-bearing deposits. It also causes a considerable number of private investors to make purchases of securities. Second, the inactive condition, and consequently diminished borrowing, in many lines of business requiring large amounts of capital and largely dependent upon credit. As a result, the demand for loans of commercial banks is very much less. Third, the unprecedented balance of exports over imports aided by abundant crops, paid for in part by the sale of securities held abroad, but resulting in large imports of gold. Fourth, a lack of confidence, due in part to distrust of the future of business, and more to the uncertainties attendant upon the present war in Europe. This causes an abatement in the number of enterprises promoted by prospective borrowers, and a severe scrutiny upon the part of lenders, so that only enterprises of exceptional merit are obtaining loans in the shape of bonds.

This lower rate of interest on new bonds which has been in

evidence for two years contemporaneously with a fall of the price of outstanding bonds does not show that rates of interest are lower on the class of bonds which the investment banker has usually negotiated, but, rather, that investors are more particular in the class of bonds they buy, so that a higher grade of security is now required than formerly.

Viewed from this standpoint, the contention of many able students that there will be a fall in rates of interest is readily explained. If the same general variety of securities which the market has usually absorbed in years past is disposed of, including some which have doubtful capacity to survive a storm, the rates of interest would rise. But if only selected, high grade securities are purchased, thus very materially narrowing the quantity accepted by investors, rates of interest may continue as now. It may even be true that, under these circumstances, the general tendency toward higher rates on both sides of the Atlantic, which has been in evidence for fifteen years past, may change, and bonds bearing lower rates may find purchasers, notwithstanding the supply of capital available for investment is very greatly decreased. It is hardly correct, however, to make the statement as one of universal application that rates of interest will be lower. Such a conditions would rather mean that investment would diminish in the same proportion as capital. It is true there is an unexplored region dependent especially upon the psychological disposition, not merely of investors, but of all the people, which may exert a very potent influence upon the price of capital. The destruction and poverty incident to the war will necessitate economy by very many. Will there be a general adoption of habits of frugality? If this is true, a larger proportion of the annual income of the various peoples will be devoted to savings, and there will be an unexpected increase in capital, notwithstanding adverse conditions. Will those who desire to engage in business shun enterprises in which there is a large element of risk and profits are doubtful? Is there to be a long interval in which the unprecedented development, which has been so characteristic of the past twenty years, will be stopped? Must the newer countries, abounding in resources and eagerly seeking for capital from older communities, be compelled to wait? Will the colossal expenditure estimated at $2,400,000,000 annually expended on armies

and navies prior to the war be substantially diminished? If so, conditions may right themselves much more rapidly than our present fears would justify.

In the past, at the close of great wars, there has been an exceptional spirit among the nations involved, which makes for recuperation. Every patriotic citizen feels a new interest in the welfare of his country. There is a potent desire to rehabilitate the fortunes of the individual, and recover the losses which the country has sustained. This results in a degree of co-operation and industrial progress which has not existed before. It may be anticipated that this spirit will be more effective now than ever. The modern ability for organization, the great productiveness of industry, all the factors which have been so potent in the utilization of the world's resources, will survive the war, and the desire to regain the commercial position held before the war will stimulate victor and vanquished alike. Over against these possibilities, it must be said that inevitable results of far-reaching consequence are sure to follow the war. Prominent among these will be the enormous mass of governmental securities to be disposed or carried by the investing public. Between fifteen and twenty billions is the sum of the indebtedness already incurred by the contending nations in barely one year of the war. So great an amount of public debts, a large share of which must be met by long time bonds must very materially influence the opportunities for the various classes of private loans, and naturally raise the rate of interest upon them.

The first considerable issue of bonds made by Great Britain, amounting to £350,000,000, was placed at approximately four per cent. That is, they were sold at 95, at 3½ per cent interest for ten years. The next issue was made at 4½ per cent, and it was deemed necessary to insert a provision that the owners, in case further issues should be made might have the privilege of exchanging them, so that if the rates of interest were higher they might take advantage of it. It is stated in the public press that the proposed loan now pending, which is sought to be negotiated in the United States, is to draw 5 per cent. This increase of interest, incidental to increased issues, shows a tendency which no doubt will be effective the larger the indebtedness incurred by each of the respective governments engaged in the war.

Let us now attempt to answer the question, What was the reason for the increase in rates of interest in the fifteen years or thereabouts preceding the war? Broadly speaking, the answer must be found in most significant movements in the social, political and economic life of the whole civilized world. These fifteen years constitute a period in which there was an unparalleled advance in industry and commerce, and the betterment of conditions for the human race. There was an unsurpassed development in science and invention, resulting in a new and enlarged equipment for the supply of human wants. Every invention which furnishes a new method for production, or provides some new article or facility, invites large quantities of capital, because of the stimulating prospect for large gains. Many enterprises of colossal magnitude and enormous cost were prosecuted, the utilization of which must be long deferred, or the full advantage of which must necessarily be postponed for a considerable time after completion. We need only instance, as an illustration, the Panama Canal, costing $400,000,000 and requiring nearly ten years for its construction. Every enterprise which locks up so large an amount of capital, and for so considerable a time deranges the relation between circulating and fixed capital, and emphasizes the different effect of nearby and remote realization. It is characteristic of every progressive era that an exceptional share of capital is devoted to the preparation of equipment in anticipation of increased consumption or the supply of new demands in the future. This causes derangement in the supply of capital and increases rates of interest. Far more important, however, is the consumption of so large a share of the world's capital for purposes which do not, in an economic sense, confer the same immediate benefits, as was the case in a less progressive period. Capital has been diverted from the usual channels in which it will reproduce itself and transferred to a use in which no direct economic result can be expected. Part of this use of capital has been helpful and aided human progress, a part has not. In the latter class may be included the increasing share of capital expended for luxury and extravagance. The former, while conferring substantial benefits, has not afforded the same returns as would be obtained from the ordinary uses of capital prior to the time when the demands for the amelioration of conditions were less insistent.

They are illustrated by the establishment of parks, playgrounds, improved sanitary conditions in cities, higher standards in architecture, more commodious dwellings, greater opportunities for recreation and amusement. In brief, an almost universal improvement in human conditions and surroundings. None of these are to be rejected because they are costly. They prove that, with superior equipment for production and greater control over nature, it is possible to raise the standards of living. All these things which have been mentioned are quite as important as rates of interest, but, at the same time, it cannot be denied that the expenditure of capital upon these various objects does not bring that substantial return in supply of essential commodities, which would be afforded by devoting the world's resources to securing the ordinary necessities of life. Mr. Adam Smith in his "Wealth of Nations," published in 1776, says that even the common workman, as he terms him, may sometimes go to a play or a puppet show and so contribute his share toward maintaining one set of unproductive laborers. With his Scotch admiration for thrift and rigid adherence to rules for increasing wealth, he seems to have taken this fact very much to heart. But there was no occasion to fret about it. The condition which he mentions simply proved that the struggle for a bare subsistence had been succeeded by an age in which goods, as he calls them, were more abundant and men had larger opportunities. So the early years of this century have beeen characterized by an abundance which has made life worth living, notwithstanding the expense is greater. The problem of higher rates of interest is closely associated with the higher cost of living, the higher cost of commodities.

A practical and immediate reason which has substantially increased rates of interest in this country was the flotation of an enormous volume of securities incident to the consolidation and trust movement which gained its maximum degree of momentum in the very years when interest began to rise. Such a multiplication of bonds and stocks as that which followed the organization of giant corporations must have its effect in diminishing the amount of money otherwise available for investment.

To summarize, the following results may be expected from the present war:

1. An enormous decrease in capital available for investment.

2. A temporary shrinkage in the aggregate volume of commercial and industrial activities. Expenditures for rehabilitation and reconstruction will have preference over those for the development of new enterprises.

3. Higher average rates of interest. This certainly will be the case if the attempt is made to prosecute all the varied classes of undertakings which heretofore have required loans.

4. A greater degree of discrimination on the part of the investing public and, consequently, a wider disparity in the rates of interest among the various catagories of investments. It is altogether likely that the interest on certain high grade bonds will decline.

5. The United States will obviously occupy a more important position in the world's investment market than formerly.

Just what will be the effect of the war upon the business of the investment banker in the United States? It is perfectly manifest that this country will occupy a more prominent position in the placing of investments than ever before. Loans will be sought here which have hitherto been furnished in European countries. This will materially diversify the variety of securities offered to investors here. There will be a broader outlook for the investor and the most careful judgment will be required. For a time it is probable that the majority of the transactions will be in high grade securities, though at an early date bonds will be offered which bear a high rate of interest.

It is frequently said that the American investor does not like to make loans outside his own country, and reference is made to the marked partiality for loans in the vicinity of the financial institutions or private investor having funds to lend. Yet the United States already has investments estimated at not less than $1,500,000,000 in Canada, Mexico, the West Indies, the Philippines and outlying portions of the earth. A loan of $25,000,000 has recently been made to the government of Argentina. A loan has been made, or is about to be made, to the Government of Chile. The proposition has been made to lend $3,000,000 to Ecuador, provided customs receipts can be supervised by the lenders. France has obtained in this country since the commencement of the war, on loans by notes or otherwise, approximately $100,000,000; Germany, on notes for less than a year,

$10,000,000; Switzerland, $15,000,000; Norway, $3,000,000, and Sweden $5,000,000. Most important of all, it is now proposed to lend $500,000,000, or more, to two of the contending nations in Europe. There will be a variety of offerings which, in rates of interest and in the quality of enterprises represented, will surely attract investment.

As regards the countries of Latin America, a desire for trade expansion and for closer diplomatic relations will surely furnish a powerful motive for the placing of loans. The same may be true of China and other countries. There is an earnest desire for the enlargement of our exports of manufactured articles. It is now realized that in many localities expansion of exports must necessarily depend upon the making of loans. The increased demand for many essential products, which can be most readily and cheaply furnished in countries now only partially developed, renders it practically necessary to furnish them with capital. The demoralized conditions which will certainly prevail in Europe after the close of the war will impose upon our country new opportunities and, it may be added, new responsibilities.

The magnificent progress in making provision for betterment of conditions, illustrated by improvements in cities and keener regard for human welfare, cannot be stopped, although it may be seriously impeded. This advance has been characteristic of the recent era of scientific discovery, and of the larger demands of modern life. It is but natural to suppose that there will be an orderly sequence in the making of loans in which, with increase of capital, different classes of investments will assume prominence as the years go by. We may recognize an analogy for this in the investments of the last half century or more. At one time, capital was only sufficient to supply the demand for loans to the Government, and for state and municipal bonds. Then followed provision for the building of railways, for public utilities in cities, electric lines between cities, industrial bonds, a marvelous development along many lines was provided for by increased captial sufficient to meet the situation.

Certain classes of domestic enterprises, no doubt, will receive less attention. It is probable that the building of electric railways between cities will experience a material decline. There may be a decrease in the building of steam railroads, although there will

be an unlimited field for the improvement of existing lines, including more ample terminals, better roadbeds, double tracking, and superior equipment in motive power and rolling stock.

When both foreign and domestic securities are marshalled, there will be but little question but that there will be sufficient variety in the quality of undertakings and rates of interest to suit all purchasers.

There is no reason why present efforts in the placing of bonds should be suspended or abated. An abundant supply of securities is now being offered which, war or no war, will be desirable for investors, and meet all the tests of security and adequate return at all times.

It is necessary always to bear in mind that the placing of foreign loans is a matter of grave responsibility. Their effect is not limited to a stimulating influence upon trade, nor to the profits of those who make them. They furnish to foreign lands the means for material development, for uplifting those who are backward in civilization, or tardy in gaining the benefits of modern progress. Rightly managed, they stimulate good will between the citizens of the countries involved in the transaction. They tend to promote equality of conditions between those who have a surplus of capital and others who are in urgent need of it. Our international relations are sure to assume greatly increased importance in the future. Not force, but common interests in finance and trade, will best promote friendship and peace.

The ability to lend carries with it a power which should always be exercised with the utmost care. In the wider field in which the people of the United States must conduct their operations, the investment banker must always have an abiding consciousness of the new duties imposed upon the citizens of Greater America as the leaders in the world's civilization. I am sure that all these new duties will be met by the members of this Association with zeal and earnestness, and in a spirit in which thrift will not displace patriotism, or the eager desire for success supplant the finer qualities of cosmopolitanism and due regard for all, which are the crowning distinctions in the enlargement of a nations' financial life.

The Toastmaster: Gentlemen, you will observe that the Senator from Ohio, true to his ancestral tradition, has given us figures;

following his distinguished ancestor, Sir Richard Francis, which Scheherazade in her most imaginative moments would not have mentioned any figures such as he has quoted. [Laughter and applause.] This recent crisis has brought on the world the figures of millions and billions of dollars, which is hardly within the scope of the ordinary mind to understand, and yet we see all through the tinge of the lavender and melancholy from his ancestor Robert.

Gentlemen, the next speaker was for many years a post office inspector, charged with the investigation of the fraudulent use of the mails. Afterwards he became chief inspector, and to-day he occupies the very unique position of being the sole director of one of the greatest banks of the country—the Postal Savings System. The only regret is that it is impossible for the investment bankers to "touch him." [Laughter.] The main purpose of the Postal Savings Bank, so far as I have been able to determine, is that they save the people's money from themselves and from the investment bankers [Laughter], and for that reason I am strong for the Postal Savings System. I want to introduce to you Hon. Carter B. Keene, of Washington, who will speak on Postal Savings from Behind the Scenes. Mr. Keene. [Applause.]

POSTAL SAVINGS FROM BEHIND THE SCENES

HON. CARTER B. KEENE
Director, Postal Savings System, Washington, D. C.

MR. TOASTMASTER AND GENTLEMEN:

I appreciate very highly your invitation to speak here tonight, also the words of commendation from your presiding officer. I have often wondered whether the fact that I am the only director of a big savings institution has anything to do with the ability of that institution to pay every depositor his money on demand. [Laughter and applause.]

I have been here since Sunday, was the first to come and intend to be the last to go. I do not know whether I have missed anything or not. If I have, I assure you it was missed inadvertently. I have heard much about investment bankers, but I

never saw so many together before and it has been a real treat to listen to your discussions and participate in your royal entertainment. Some of you, I discover, are pessimists, some are optimists, and some are unclassified. [Laughter.] And this makes the result of your deliberations the more valuable for your view of things from many angles. I have noticed one among you who has observed your incomings and outgoings in mixed anticipation and anxiety. This man is Mr. Franklin. Last night he said you were the wisest gentlemen in all the land — the most benevolent, and the best judges of men's capabilities. But he weakened his compliments by paying them just after you had elected him President. [Laughter.]

I have been referred to by your toastmaster as a former post office inspector. That's true, and I want to say that my service in that capacity makes me particularly appreciative of the efforts of your Association in certain directions. When I was invited to come to Denver and say a word about the postal savings service, I looked back into the recorded reasons that led up to the organization of the Investment Bankers Association of America. In the preamble of your constitution — a declaration of purpose — I saw things that put me very much in sympathy with your organization. Chief among them was your declared purpose to exert all possible diligence in suppressing the sale of bogus and fraudulent securities.

Ten years I was a post office inspector, and a large part of my time was given over to running down fraudulent users of the mails, and the picture that comes before me tonight as I review my experiences is a sad one. I have seen homes lost in the twinkling of an eye, the opulent made poor, the aged and the infirm driven back to the fields and the shops through the swindling of oily crooks who employ a two-cent postage stamp as their messenger of crime. I have seen these pathetic scenes, gentlemen, and I bow in reverence to an organization that sets its force and face against such conscienceless scoundrels. [Applause.] The Post Office Department is pressing its crusade against fraudulent users of the mails with unprecedented vigor. The active co-operation of your organization would lead to still greater results. Aside from the higher purpose of protecting the public against frauds and impositions, you investment bankers, should not lose sight

of the fact that the best way to make a market for sound securities is by driving bogus ones out of the market.

The toastmaster was wrong when he said that postal savings has nothing to do with investment bankers. We have a great deal to do with them. Indirectly, we are one of their best customers. More than ninety-four million dollars in bonds are now with the Treasurer of the United States as security for postal savings funds, and you gentlemen have largely supplied the banks with these bonds. Sixteen million dollars are in State and Territorial bonds; city, town and village bonds amount to forty-six millions; county bonds nine; miscellaneous bonds ten; and bonds of the United States Government and its dependencies thirteen. And, at this juncture, I bring to you gentlemen greetings from the Solicitor for the Post Office Department, who is charged with the responsibility of passing upon the legal sufficiency of these bonds. He asked me to say to you that he appreciates most highly the co-operation that investment bankers have accorded his office in the last year or two in giving it the benefit of your research and investigation. You know the character of bonds that can be accepted under the law, and it has been of great assistance to the Solicitor to get from you, for confidential use, opinions of reputable bond attorneys and other data affecting issues which you have handled.

Since I have been here this week I have heard billions and billions talked about. I don't know what a billion is. I can not comprehend it. I can hardly comprehend what a million is. But I want to tell you that in four and a half years the Postal Savings System of the United States has become custodian of sixty-eight million dollars, in cash, of the people's savings. Let me lay emphasis on the *CASH*, because big figures do not always mean cash. Sixty-five million dollars of this money is on deposit in six thousand banks scattered throughout the country. In other words, practically all of the money we have collected has been released through the banks to channels of trade in the very localities where it originated. I am sure you will agree with me that this is a very creditable showing so far as dollars and cents are concerned.

The Federal Reserve Act, which went into effect on the 16th of November last, provided that postal savings funds should not

be deposited in non-member banks. The Attorney-General for the United States has held that the prohibition relates to funds received on and after November 16th. Therefore, postal savings on deposit in state institutions when the Act became effective have been allowed to remain, except as it has been necessary to withdraw it to pay depositors.

The Post Office Department has made frequent investigations to determine where postal savings deposits come from, with the invariable result that they are found to come from chimney corners, mattresses, bootlegs, etc., but until very recently no effort has been made to ascertain where postal savings go when withdrawn. And this recent inquiry has been both gratifying and entertaining. It was found that in a vast majority of cases savings were withdrawn for very substantial reasons, prominent among them being payments on homes and the launching of small business enterprises. Occasionally a hospital bill was paid. Some depositors sent money to the old country to bring over a parent or a brother; a wedding trousseau here and there; and in Colorado we have a record of a withdrawal to buy an automobile. [Laughter.]

I am glad to say that there has been a great change in the attitude of the banks toward postal savings in the last few years. At the outset, many bankers thought that postal savings was an unwarranted invasion of the domain of private enterprises and that the service would prove a severe drain on their established business. The opposite has been the result. The tarnished coins and soiled currency that comes into our postal depositories represent hidden savings — money that is beyond the reach of any corporate banking institution no matter how sound it may be or how conservatively managed. This newly discovered money has been made available for commercial purposes in the very cities and localities from which it was withdrawn, so instead of being a drain on corporate banking institutions postal savings has added to the deposits of some six thousand banks more than sixty-five millions. The bankers now freely admit that postal savings has been a help to them and it is no uncommon thing for banks, especially in the mining regions of the West, to urge the Post Office Department to extend postal savings facilities in order that more money may be made available for local uses.

Among our 540,000 depositors every nation on the face of the earth is represented, also every conceivable occupation. The fisherman, the miner, the shoemaker, the preacher, the bank teller, the butcher, the baker, the candle-stick maker, all have accounts, but the great bulk of our deposits comes from the men and women who work with their hands for a daily wage.

The foreign born are our most numerous and liberal patrons. An interesting poll of depositors has just been made by the Post Office Department and it was found that 59 per cent of all postal savings depositors were born outside the United States while the American-born comprise 41 per cent. A still more surprising fact is that the foreign born own 72 per cent of all the deposits. The Russians lead with $14,000,000 to their credit, or 20.7 per cent. Then follow the Italians with $9,650,000, or 14.2 per cent; natives of Great Britain and her colonies with $6,000,000, or 8.8 per cent; the Austrians with $5,900,000, or 8.7 per cent; Hungarians, $2,900,000, or 4.3 per cent; Germans, $2,800,000, or 4.1 per cent; Swedes, $1,500,000, or 2.2 per cent; and Greeks, $1,200,000, or 1.8 per cent.

What a splendid vote of confidence on the part of our foreign-born citizens in the good faith of the United States. And in these figures also is a high testimonial to the industry and frugality of our newly acquired citizens. That they should take most kindly to postal savings is not remarkable when we consider that they were accustomed to a similar service in their native countries. Almost every European nation had a postal savings system forty years before we adopted one, and these people from across the seas know what it means to have the Government back of every dollar on deposit.

Another thing that has induced foreigners to become postal savings depositors is the disastrous experiences many of them have had with so-called "private banks," usually operated by people of their own tongue. It is difficult to conceive of a more heinous crime than some of these so-called "bankers,"— slick and persuasive — have committed in alluring credulous, hard-working men and women, to entrust their humble savings with them for the deliberate purpose of theft. I am glad to see that prosecuting officers have recently been aroused to the "private bank swindle" and that their promoters are getting the punishment they deserve.

When Europe got on fire last year, our postal savings receipts began to increase by leaps and bounds. During the fiscal year 1915, the deposits jumped from $43,440,000 to $65,680,000 and more than 140,000 new accounts were opened. The war still has an influence upon postal savings deposits, but the more immediate cause of large deposits at this time is the remarkable revival of commercial activities. Seven cities now have more than a million dollars on deposit, namely, New York, Brooklyn, Chicago, Boston, Detroit, San Francisco, and Portland, Oregon, Greater New York, including Brooklyn and several other offices in the municipality, now have over one-fourth of all the money in the Postal Savings System. During the past fiscal year New York City gained 200 per cent; Bridgeport, Connecticut, 188 per cent; Brooklyn, New York, 167 per cent; Paterson, New Jersey, 162 per cent; Jersey City, New Jersey, 122 per cent; Detroit, Michigan, 112 per cent; Newark, New Jersey, 100 per cent; Akron, Ohio, 77 per cent; Gary Indiana,, 66 per cent; Pueblo, Colorado, 52 per cent.

Now, my friends, I come to a point that I hope will make an impression on your minds — a lasting impression — and that point is that the postal savings system from the first has been seriously handicapped by statutory restrictions on the amount that may be accepted. The law permits the acceptance of only one hundred dollars a month, and five hundred dollars in all from a depositor. It has been shown that the foreign born are the largest patrons of our savings service and if this service is to reach its fullest measure of success we must recognize and respect the habits of the foreigner, and one of his habits is to save his money until he gets several hundred dollars together and then take the entire amount to the post office, just as he did in the old country. Because the postmaster can not accept all that is offered, the intending depositor very frequently goes away in resentment and disappointment without depositing a dollar.

Last week in Milwaukee five people of foreign extraction appeared at the post office window in a single day with more money for deposit than could be accepted. The five offered nineteen hundred and fifty dollars. One man put in one hundred dollars and the rest took their's away. So, out of nineteen hundred and fifty dollars which these people wanted to deposit the law forced

eighteen hundred and fifty away. Gentlemen, this incident is like thousands that are coming to the notice of the Post Office Department.

It is the testimony of postmasters from all over the country that they are rejecting about as much money as they are taking in. The Postmaster General last year recommended to Congress that one thousand dollars be accepted with interest and that another thousand dollars be accepted without interest, but for safe-keeping. That was a practical and reasonable recommendation — one which would meet all requirements in ninety-five per cent of the cases. Unfortunately the recommendation failed, because the postal service bill failed, but I understand that the conferees on the part of the Senate and the House were in accord on postal savings legislation. The Postmaster General has indicated that he will repeat the recommendation in his forthcoming annual report and I sincerely hope that Congress will promptly recognize the urgent need of the legislation. Millions of dollars my friends, are spent every year by uplift societies for the betterment of the foreigners These foreigners, these begrimed, hard-working foreigners, come to our post offices and ask us to take their humble savings. How unfortunate that we can not accept what they offer, within reasonable bounds. What an effective agency this would be in bettering in a most practical and permanent way the conditions of the very people we want to Americanize as speedily as possible.

Gentlemen, I have already taken up too much of your time, but I will pass quickly. I have been assigned to speak of "Postal Savings Behind the Scenes." That is a broad subject. We have five hundred and forty thousand depositors in the United States today, and postal savings has a new and different story for each one of them. It is not always the big things in life that change or fix our course. Can you not remember when a few dollars or the want of a few dollars tipped you one way or the other in some important matter? Who can estimate the happiness and prosperity that the starting of a postal savings account may lead to? It is a step, and an important one, in the right direction. Some one has well said that the immigrant who opens a postal savings account steps unconsciously on a moving platform; one thing leads to another and his deposit might lead

him into local investment and investment into business and into citizenship.

There is a very interesting human-interest side to postal savings in which every phase of good fortune and disaster is reflected. An aged couple at Norfolk without the knowledge of each other had been carrying $100 on their persons as a guaranty of respectable burial. They are now postal savings depositors. Two sisters died in each other's arms in the Eastland disaster in Chicago a few weeks ago — two working girls — and they had postal savings accounts for like amounts. Their savings went to pay for their burial. One of Uncle Sam's bluejackets who went down on the ill-fated submarine F-4 was the owner of a substantial postal savings account. Gentlemen, the Postal Savings System means something more than a cold array of assets and liabilities, a balance sheet. Way off in an isolated spot in Russia a money order went not long ago to the home of an humble peasant. That money order represented the savings of a son who was drowned in the Susquehanna River. A few weeks back, a thrifty Mexican girl withdrew her savings from the post-office at San Diego, California, to buy a trousseau. After the honeymoon she returned to the office with her new husband and both opened postal savings accounts.

Last year Leadville, Colorado, struck a thrift note that was new in this country, so far as I know, and reference to it is particularly timely as Christmas is approaching. A mining company in that city struck the note, and I hope it will be heard from one end of this country to the other. It was this: Last December an officer of the company went to the post-office and opened a postal savings account for every employee — ninety in all — as a Christmas present. He placed to the credit of each two per cent of what he had earned during the year. These Christmas remembrances amounted to over fifteen hundred dollars. Out of the ninety employees only five had previously opened postal savings accounts. Now, I count that substantial charity; I call that well directed charity. We have kept track of these particular deposits and the workmen who got their start through that Christmas bounty are adding to their savings weekly by their own personal efforts. [Applause.]

Gentlemen, as a rule we in official life swing back and forth

in a measured arc, and the little one can do is so small when compared with the mass of Government activity that we feel insignificant and lost. But I feel, my friends, that in the Postal Savings System my associates and I are doing a positive good for humanity. I believe that we are making people better and happier because postal savings points the way from the sweat shop to the school — it stands for clean homes and empty alleys. Each of you is a stockholder in the Postal Savings System and its success is your success. Your dividends are in the better and happier American citizenship which it encourages and promotes. [Applause.]

The Toastmaster: Gentlemen, we now approach a subject of some delicacy, a subject which must be handled with great tact and perspicacity. Patriotism has been defined as fighting to hold your own; but in many cases in recent history it unfortunately has been defined as fighting to hold the other fellows. However, the subject tonight is to be handled by a gentleman who is amply able to elucidate it, a gentleman who has been drawing his inspiration for years from our snow-clad hills and mountain tops, and our sparkling valleys; and I can well remember an early experience I had in Colorado examining a mine, and the old prospector who was showing me the property, in answering my various questions became somewhat annoyed, and finally I thought I would essay one more question. I said, "How long have you been here?" And he pointed over the distant mountains, and said, "Young man, they was here when I come." [Laughter.] And as I look at the summit of the distinguished Senator from Colorado, and notice the timber line receding from 11,500 to 11,000 and down to 10,000, I can truthfully say that he was here when I come. [Laughter and applause.]

Now, Senator Thomas has been heard on many subjects in this nation, serious and humorous, and learned and sarcastic. He has been heard before the bar of justice, before the bar of public opinion, and before the bar of stimulation and hilarity, and I have never yet seen him fail; a gentleman who for lucidity of thought, for versatility of expression, there are none, bars down, bar none. Senator Thomas.

(*Orchestra plays "America."*)

PATRIOTISM

HON. CHARLES S. THOMAS
Senator from Colorado, Denver

I am sure, gentlemen, that you will appreciate the fact that I have been assigned a subject which involves no statistics. Indeed, I am sometimes at a loss to know why I have been assigned any subject at all on an occasion like this. Some days ago my good friend, Mr. Alec Foster, as the head of the committee, visited me and asked if I would consent to be one to address the Investment Bankers Association of America. I suggested the names of several gentlemen who know more about investments than I do, a number who, if they know anything about bonds at all, know much more about them than I do, except the indemnifying bond. Mr. Foster said that this was a special occasion and they were taking no chances. He said, "I have known you a long time; you have no particular reputation to save [laughter], and you have certainly no credit to lose; and therefore you are assigned a subject that is as broad as the universe, and I expect you to say as little about it as possible." [Laughter.] Of course, under these representations, I could not do otherwise than accept the bounty of your hospitality, and contribute, I hope, in some degree to your entertainment.

I want to thank very sincerely the Entertainment Committee for doing me this honor, and particularly for giving me this opportunity to meet with my distinguished associate and co-laborer, Senator Burton of Ohio. The Senator has been in public life for many years; he is one of the most thoughtful students, one of the most earnest public servants, one of the most distinguished patriots in the United States. [Applause.] I was very sorry indeed to see him retire from public life, because I knew that in doing so the nation suffered a distinct loss. It is true that recently an ex-president of the United States, because of some disagreement in policies between himself and Mr. Burton, has publicly declared the latter unfit to hold any office of public trust. [Laughter.] This remark seemed to me to justify the soundness of the old couplet: "How few think justly of the thinking few; how many never think who think they do." If, in the future we are again to have a republican president (which God forbid) [laughter], and the great

party which bears that name should decide to bestow the honor upon my distinguished friend from Ohio, the nation will never have cause to regret the fact. [Applause.] But I believe that I was to say something on the subject of patriotism. Patriotism, like charity, covers a great multitude of sins, and bears some resemblance to liberty, in that many crimes have been committed in its name. I think it was Leckey who said that the early stages of civilization, religion and patriotism were very nearly synonymous, and to some extent the same is true today, although we have many conceptions of patriotism running the entire gamut from love of country to love of self. When I was a boy a very popular play on the stage presented as its leading character Mulberry Sellers. It was called the Gilded Age, and Mulberry Sellers, when speaking of patriotism always went in for "the old flag and an appropriation."

Most of us exhibit our patriotism on special and state occasions, and then we put it away and forget all about it. It is like the farmer's Sunday-go-to-meeting suit. It is only donned occasionally and then laid away carefully until its use is again demanded. Now, patriotism, as far as it affects the loyalty of the citizen to his own country, has inbound with it the widest of virtues. There is no man, at least I hope there is no man, so lost to sense of duty and love for the country of which he is a native and from which his ancestors sprang, who will not at any and all proper and necessary times exhibit in a practical form that devotion to the institutions of his own land, which the highest degree of self-denial may require. [Applause.]

In this country party lines frequently engender personal feeling, resentment runs high, and passion flames forth in many of our campaigns; but when we are confronted with some menace from abroad, partisanship should become silent and we stand, or should stand, undivided. Such, I believe is, gentlemen, the patriotism of the American people, native and naturalized, having our opinions, of course, and expressing them on all problems concerning all our institutions and with regard to all public questions, whether domestic or foreign. But as against the world outside let our common sentiment be, "Our Country, 'Tis of Thee, Sweet Land of Liberty, for Thee We Stand." [Applause.]

My own ideas of patriotism, however, gentlemen, are that in affairs of our own and as regards the general conditions of our own natural life and institutions, it is the duty of every citizen to take a stand and maintain it. I think that it was Solon who had a law in the old days of the Spartans that declared a citizen infamous who in all matters of discussion stood neutral; but the average American citizen today is so absorbed in his own affairs that, except in great emergencies, he permits the political affairs of the country to be run by the political machine; and ninety per cent of the abuses of which the business complains are very largely the result of his own indifference to his community and his public duties. [Applause.] It is at all times a prime essential that the law be enforced to the end that the person may be secure and the authority of government respected. We are drifting rapidly from that conception of government for one reason or another, social agitations, industrial and economic indifferences increasing in number and seriousness; our internal affairs demand, as they never demanded before, the attention of the citizen to his public duties, to his assertion of what he honestly thinks regarding the perils and the needs of the hour. Yet some ninety per cent seem to have forgotten its public responsibilities, and the other ten per cent only occasionally prefer to act upon them. We have in this country some features of bad citizenship. The anarchist, for example, the agitator, possibly the man whose devotion to the institutions of some other country are stronger than his belief in those of his own; but the most dangerous of all our citizens is the intelligent man who is indifferent to the conditions surrounding him, and intent solely upon the pursuit of wealth. The biggest coward in America, with one exception, is the candidate for office, the exception being the average business man. [Laughter.] He dares not take a firm or an open stand upon what he knows to be right and for what he feels to be the welfare of his own country, yet an exercise of this public obligation is demanded as it never was before. In this country, every man is a sovereign, and enjoys his privileges without the devotion of any part of his time to the performance of public duty and to the proper understanding and discussion of public affairs. It is said that war, horrible as it is, serves to purify mankind to exalt human nature, and to lift man out of the influence of those things

which long intervals of peace have accumulated around him. I have noticed that as one result of the awful conflict in the old country, a system of introspection is quietly going on among us, many men in all seriousness asking themselves, "Is it well with us on this side of the ocean?" Have we not neglected or failed to do what we owe to ourselves, our institutions, our humanity, and to posterity. I believe this is going to inspire, temporarily at least, permanently I hope, better and nobler views of the requirements which society imposes on those in high positions, that we as citizens of this country shall secure a more clear perception of what is required of us to the end that those who come after us may enjoy without impairment the blessings of every institution won by our fathers and transmitted by them to ourselves. I hope that this may indeed be one of the lessons of this awful conflict to us all, and that we shall strive as never before to perceive and perform our public duties until that time when, "We shall like the fleecy clouds of the morning melt away in the infinite azure of the past."

The Toastmaster: The hour is getting late, and, on behalf of the City of Denver, I want to say that we are glad you came. We hope that you will bring yourself and your friends again to us; and I can only say about that word, which the city fosters in its wisdom on the gate which stands in front of the Union Depot in Denver, "Mizpah": may God watch over you carefully, and bring you back to Denver. [Applause.] We were delighted to have seen you. We are sorry to see you go, and we hope you will come back many times; and now the meeting of the Association is adjourned.

The President: Gentlemen, may we not give three cheers for Denver, for Colorado, and for our friends here.

APPENDIX

Constitution *and* By-Laws

of the

Investment Bankers Association *of* America

Constitution *and* By-Laws *of the* Investment Bankers Association *of* America

PREAMBLE

In order to promote the general welfare and influence of investment banks, or bankers, likewise banking institutions operating bond departments, and to secure uniformity of action, both in legislation and methods of handling securities, together with the practical benefits to be derived from personal acquaintance, and for the discussion of subjects of importance to the banking and commercial interests of the country which affect the investing public, and for protection against loss by crime, or through wilful and irresponsible dealers in investment securities, and to surround the offerings of its members with greater safeguards, we submit the following Constitution and By-Laws for the Investment Bankers Association of America.

CONSTITUTION

Article I

Section 1. This Association shall be entitled:

"THE INVESTMENT BANKERS ASSOCIATION OF AMERICA."

Article II

Section 1. Any national or state bank, trust company, private banker, banking firm, or corporation, in good standing, having a paid-in capital of $50,000.00 or more, and which makes a practice of buying bonds or investment stocks, and publicly offers the same, as dealers therein, shall be eligible to membership in this Association, and upon their election to membership, and the payment of annual dues, and membership fee, as hereinafter

provided by the By-Laws, shall be entitled to one delegate to the annual meetings of the Association, and any member may be expelled from this Association upon a vote of two-thirds of the Board of Governors.

Section 2. Branch offices not incorporated may send one delegate to the meetings of the Association, but such firm shall have but one vote. Branch offices operating as a separate corporation shall pay the regular dues, and enjoy the privileges of full membership.

Section 3. Each delegate representing a member shall be an officer or director or trustee of the institution represented, or a manager of the bond or investment department, or a member of a banking firm, or a private banker, or the manager of the investment department thereof, or a manager of a branch office.

Section 4. Delegates shall vote in person; and no delegate shall be entitled to more than one vote.

Section 5. All votes shall be viva voce, unless otherwise ordered, except as hereinafter provided; any delegate may demand a division of the house.

Article III

Section 1. The administration of the affairs of this Association shall be vested in a President, five Vice-Presidents, a Secretary, a Treasurer and a Board of Governors of twenty-four members, eight of whom shall hold office for one year, eight for two years and eight for three years, and thereafter, eight shall be chosen at each annual meeting for a period of three years, or until his successor is chosen or appointed, and the first President of this Association, at the expiration of his term of office, shall become and remain a member of the Board of Governors, with full voting power, so long as he shall continue in the bond business; and the retiring president of the Association shall become an ex-officio member of the Board of Governors for one year immediately following his term of office; but no member of the Board of Governors, having served a full term of three years shall be eligible for re-election until after the expiration of one year, except as above provided.

Section 2. The President shall preside at all meetings of the Association and of the Board of Governors, countersign all

certificates of membership and may appoint such committees from time to time as may be required for the conduct of the business.

Section 3. In the absence of the President, the Vice-Presidents shall perform the duties of the office of President in the order in which they are chosen.

Section 4. The Secretary's office shall be the principal place of business of this Association. The Secretary shall conduct all general correspondence of the Association and shall have charge of all files and records and shall keep the general books of account and shall be the custodian of the Seal of the Association. The Secretary shall keep an accurate list of the members of this Association, and shall notify all new members when elected. He shall collect all dues and other moneys due the Association, and shall immediately turn all moneys collected over to the Treasurer.

The Secretary shall keep a record of the proceedings of all meetings of the Association, and the Board of Governors, and perform such other duties as may from time to time be required by the President or the Board of Governors.

Section 5. The Treasurer shall receive and receipt for all moneys collected by the Association or its officers, and shall disburse the same upon the presentation of proper voucher checks issued and signed by the Secretary or Assistant Secretary and countersigned by the President or Vice-President. He shall keep a correct record of and account for all moneys coming into his hands, and of all disbursements, and shall make a report thereof to the annual meeting of the Association, and to the Board of Governors when and as often as they may require. He shall give bond to the Association in such sum as the Board of Governors may require. He shall deposit the funds of the Association in his custody in some National or State Bank, or Trust Company, subject to the approval of the Board of Governors.

Section 6. The members of the Board of Governors shall, as soon as may be after their election, divide themselves by ballot into three classes of equal number, designated as First, Second and Third Classes, of which the First Class shall remain in office one year, the Second Class two years, and the Third Class three years, and on each annual election members of the Board of Governors shall be elected for a term of three years to fill the

vacancies of the retiring class; subject to the provisions of Section 1 of this Article.

Section 7. The Board of Governors shall determine the time and place of holding its meetings, and of the regular annual meeting of the Association, and shall have power to fill all vacancies until the next annual meeting, and to adopt all necessary rules for governing the business of this Association, and may name such appointive offices as may be necessary.

Section 8. The Board of Governors may be called together at any time by the Secretary, at the request of five members thereof, or by the President, and shall be vested with full power to transact such business as may have been authorized by this Association, and shall make annual appropriation for carrying on the work of the Committees. Any eight members of the Board shall constitute a quorum.

Article IV

Section 1. The expenses of the Board of Governors of the Association, as well as of all officers and committees, in carrying out the business to be done by them, shall be provided for by annual dues of the members of the Association, provided, however, that the Board of Governors or any Committee shall have no authority to incur or contract, on behalf of this Association, any liability whatever beyond the amount of the annual dues and moneys actually collected.

Article V

Section 1. Resolutions or subjects for discussion (excepting those referring to point of order or matters of courtesy) must be filed with the Secretary at least ten days before the Annual Convention, and submitted to the Board of Governors at its regular meeting preceding the Convention, but any person desiring to submit any resolution or business in open convention may do so upon a majority vote of the delegates present.

Article VI

Section 1. Any member failing to pay membership fee, or dues for a period of three months after receiving due notice thereof shall be considered as having withdrawn from the Association,

but may be reinstated upon application to the Secretary and payment of all dues in arrears, with the consent of the Chairman of the Membership Committee.

Article VII

Section 1. The fiscal year of this Association shall commence September first and end August thirty-first, and the Association shall meet, and the annual meeting shall be held within ninety days thereafter for the election of officers and members of the Board of Governors. The Association may also be called together at any time by order of the Board of Governors.

Section 2. At all annual meetings the members of the Association may be represented by one delegate each. At these annual meetings there shall be presented for discussion such topics as will be of interest to its members, together with the reports of the officers and various standing committees, and such addresses as the Board of Governors may approve.

Section 3. The Board of Governors in each year shall select the regular ticket of officers to be voted on at the next annual meeting; written notice whereof shall be given to each member of the Association at least thirty days prior to such election. No other nominations shall be voted on unless in writing, signed by at least ten members of the Association and filed with the Secretary's office at least ten days prior to such election. Written notice of such further nominations shall be given by the Secretary prior to such annual meeting. As soon as such further nominations are filed it shall be the duty of the Secretary to give prompt notice in writing to each member of the Association.

Article VIII

Section 1. This Constitution may be amended at the First Annual Meeting by resolution submitted in writing at one session and passed at a subsequent session, but thereafter this Constitution can only be amended by written notice served on the Secretary at least thirty days before any annual meeting, and then submitted in writing to the next Annual Convention of this Association, and passed by a two-thirds vote of all delegates present.

MEMBERSHIP LIST

ALBANY

Harris, Forbes & Company . . . . 33 State St.
Trask & Co., Spencer . . . . State & James Sts.

ATLANTA

Hillyer, Wm. Hurd . . . . Trust Co. Ga. Bld.
Robinson-Humphrey-Wardlow Co. . . . 3rd National Bldg.

BALTIMORE

Baker, Watts & Co. . . . . Calvert & German Sts.
Cassatt & Company . . . . Arcade Building
Daly & Co., Owen . . . . 23 South St.
Equitable Trust Company . . . .
Estabrook & Co. . . . . 131 E. German St.
Fidelity Trust Co. . . . . Charles & Lexington Sts.
Garrett & Sons, Robert . . . . . . Continental Building
Halsey & Co., N. W. . . . . Munsey Building
Hambleton & Co. . . . . 10 South Calvert St.
Lanahan & Co., W. W. . . . . Calvert Building
Leach & Co., A. B. . . . . Maryland Trust Bldg.
Mackubin, Goodrich & Co. . . . . . 110 East German St.
Mercantile Trust & Deposit Co. . . . Calvert & German Sts.
Middendorf, Williams & Co. . . . . . . 129 E. German St.
Miller & Co. . . . . Maryland Trust Bldg.
Nelson, Cook & Co. . . . . . . Calvert & German Sts.
State Bank of Maryland . . . . Baltimore & Commerce Sts.
Strother, Brogden & Co. . . . . . Calvert & German Sts.
Townsend, Scott & Sons . . . . 209 E. Fayette St.
Wilson & Co., J. S., Jr. . . . . Calvert Bldg.

BANGOR

Merrill Trust Company . . . .

BOSTON

Baker, Ayling & Co. . . . . 50 Congress St.
Bodell & Co. . . . . 35 Congress St.
Bonbright & Co., Inc., Wm. P. . . . . . 55 Congress St.
Bond & Goodwin . . . . 35 Congress St.

Brown Bros. & Co.	60 State St.
Burgess, Lang & Co.	50 State St.
Burr & Co., George H.	35 Congress St.
Campbell, Heath & Co.	50 Congress St.
Clark & Co., E. W.	19 Congress St.
Conant & Co., A. B.	95 Milk St.
Curtis & Sanger	33 Congress St.
Denison & Company, C. E.	4 Post Office Sq.
Estabrook & Co.	15 State St.
Farnsworth & Co., E. M.	24 Milk St.
Fernald & Co., George A.	67 Milk St.
Fisk & Sons, Harvey	35 Congress St.
Goldman, Sachs & Co.	60 Congress St.
Grant & Co., R. M.	50 Congress St.
Harris & Co., N. W., Inc.	35 Federal St.
Hayden, Stone & Co.	87 Milk St.
Hornblower & Weeks	60 Congress St.
Jackson & Curtis	19 Congress St.
Kidder, Peabody & Co.	115 Devonshire St.
Leach & Co., A. B.	4 Post Office Sq.
Lee, Higginson & Co.	44 State St.
Marshall & Company, Inc.	70 State St.
Merrill, Oldham & Company	35 Congress St.
Millett, Roe & Hagen	15 Congress St.
Old Colony Trust Company	17 Court St.
Parker & Company, Inc., C. D.	78 Devonshire St.
Parkinson & Burr	53 State St.
Read & Co., Wm. A.	19 Congress St.
Richardson, Hill & Co.	50 Congress St.
Rollins & Sons, E. H.	200 Devonshire St.
Stone & Webster	147 Milk St.
Trask & Co., Spencer	50 Congress St.
Tucker, Anthony & Co.	53 State St.
Warner, Tucker & Co.	85 Devonshire St.
White, Weld & Co.	111 Devonshire St.

BUFFALO

Geiger-Jones Company, The	Marine National Bldg.
Harris, Forbes & Co.	Ellicott Sq. Bldg.
Langley & Co., W. C.	Fidelity Building
Leach & Co., A. B.	1090 Ellicott Square
Steele, John T.	Fidelity Building
Taylor & Co., H. P.	Marine National Bldg.
White, Weld & Co.	Marine National Bldg.

CANTON

Geiger-Jones Company, The	300 N. Market St.

CHICAGO

Allerton, Greene & King	208 S. La Salle St.
American Bond & Mortgage Co.	160 W. Jackson St.
Ames, Emerich & Co.	105 S. La Salle St.
Babcock, Rushton & Co.	209 S. La Salle St.
Baker, & Co., Alfred L.	141 S. La Salle St.
Bolger, Mosser & Willaman	29 S. La Salle St.
Bond & Goodwin	230 S. La Salle St.
Breed, Elliott & Harrison	105 S. La Salle St.
Brewer & Company, F. A.	208 S. La Salle St.
Burnham & Co., John	39 S. La Salle St.
Burr & Co., George H.	209 S. La Salle St.
Byllesby & Co., H. M.	208 S. La Salle St.
Campbell, Heath & Co.	208 S. La Salle St.
Central Trust Company of Illinois	125 W. Monroe St.
Chapman, & Co., P. W.	126 W. Monroe St.
Chicago Savings Bank & Trust Co.	7 W. Madison St.
Childs & Company, C. F.	208 S. La Salle St.
Clark & Co., E. W.	209 S. La Salle St.
Coler & Co., W. N.	209 S. La Salle St.
Compton Company, Wm. R.	111 W. Monroe St.
Continental and Commercial Trust and Savings Bank	208 S. La Salle St.
Corkill & Co.	112 S. La Salle St.
Counselman & Co.	112 W. Adams St.
Cowan & Co., Kennett	209 S. La Salle St.
Curtis & Sanger	126 S. La Salle St.
Devitt, Tremble & Co.	38 S. Dearborn St.
Elston, Clifford & Co.	39 S. La Salle St.
Emery, Peck & Rockwood	208 S. La Salle St.
Estabrook & Co.	209 S. La Salle St.
First Trust & Savings Bank	68 W. Monroe St.
Fort Dearborn Trust & Savings Bank	76 W. Monroe St.
Goldman, Sachs & Co.	137 S. La Salle St.
Grant & Co., R. M.	111 W. Monroe St.
Greenebaum Sons Bank & Trust Co.	11 S. La Salle St.
Halsey & Co., N. W.	209 S. La Salle St.
Harris Trust & Savings Bank	111 W. Monroe St.
Harris, Winthrop & Co.	209 S. La Salle St.
Hitchcock & Co., F. B.	39 S. La Salle St.
Hodenpyl, Hardy & Co.	38 S. Dearborn St.
Holtz & Co., H. T.	39 S. La Salle St.
Hornblower & Weeks	37 S. La Salle St.
Howard, Simmons & Co.	38 S. Dearborn St.
Illinois Trust & Savings Bank	233 S. La Salle St.
Imbrie & Co., Wm. Morris	111 W. Monroe St.

Kean, Taylor & Co.	134 S. La Salle St.
Kidder, & Co., Charles S.	108 S. La Salle St.
Kissel, Kinnicutt & Co.	209 S. La Salle St.
Leach & Co., A. B.	105 S. La Salle St.
Lee, Higginson & Co.	209 S. La Salle St.
Lobdell & Co., Edwin L.	209 S. La Salle St.
Lyon, Gary & Co.	208 S. La Salle St.
McCoy & Co.	105 S. La Salle St.
McNear & Co., C. W.	76 W. Monroe St.
Merchants Loan & Trust Company	112 W. Adams St.
National Bank of the Republic	39 S. La Salle St.
National City Bank of Chicago	105 S. Dearborn St.
Northern Trust Company	50 S. La Salle St.
Nuveen & Co., John	38 S. Dearborn St.
Peabody, Houghteling & Co.	10 S. La Salle St.
Peoples Trust & Savings Bank	138 S. Michigan Blvd.
Poole & Co., Clark L.	110 S. Dearborn St.
Porter, Fishback & Co.	76 W. Monroe St.
Powell, Garard & Co.	39 S. La Salle St.
Read & Co., Wm. A.	234 S. La Salle St.
Rollins & Sons, E. H.	234 S. La Salle St.
Russell, Brewster & Co.	116 W. Adams St.
Salomon & Co., William	105 S. La Salle St.
Souders & Co., W. G.	208 S. La Salle St.
Speer & Sons Company, H. C.	38 S. Dearborn St.
Staats Co., Wm. R.	38 S. Dearborn St.
State Bank of Chicago	135 W. Washington St.
Stone & Webster	38 S. Dearborn St.
Straus & Co., S. W.	6 N. Clark St.
Trask & Co., Spencer	208 S. La Salle St.
Ulen & Co.	38 S. Dearborn St.
Union Trust Company	7 S. Dearborn St.
Weil, Roth & Co.	209 S. La Salle St.
White & Co., Inc., J. G.	38 S. Dearborn St.
White, Weld & Co.	209 S. La Salle St.
Wilsey, Fierlein & Co.	111 W. Monroe St.
Wollenberger & Co.	109 S. La Salle St.
Yard, Otis & Taylor	105 S. La Salle St.

CINCINNATI

Atlas National Bank	320 Walnut St.
Breed, Elliott & Harrison	320 Walnut St.
Central Trust & Safe Deposit Co.	115 E. 5th St.
Clark & Co., E. W.	Union Trust Bldg.
Field, Richards & Co.	Union Central Bldg.
Fifth-Third National Bank	4th & Vine Sts.

Fillmore & Co., W. H.	St. Paul Bldg.
Friedlander, Edgar	First National Bldg.
Hutton & Co., W. E.	First National Bldg.
Irwin, Ballman & Co.	First National Bldg.
Mayer & Co., J. C.	318 Walnut St.
Provident Savings Bank & Trust Co.	7th & Vine Sts.
Seasongood & Mayer	4th & Vine Sts.
Stacy & Braun	Mercantile Library Bldg.
Tillotson & Wolcott Co.	First National Bldg.
Weil, Roth & Co.	139 E. Fourth St.

CLEVELAND

Borton & Borton	Leader Bldg.
Cleveland Trust Company	Euclid Ave. & 9th St.
Denison & Co., C. E.	Gardian Bldg.
Dietz, William G.	Citizens Bldg.
Field, Richards & Co.	Citizens Bldg.
First National Bank	
Geiger-Jones Company, The	Citizens Bldg.
Guardian Savings & Trust Co.	322 Euclid Ave.
Harris, Forbes & Co.	Cuyahoga Bldg.
Hayden, Miller & Co.	Citizens Bldg.
Murch Co., Maynard H.	Leader News Bldg.
Otis & Co.	Cuyahoga Bldg.
Tillotson & Wolcott Co.	Guardian Bldg.
White, Weld & Co.	Citizens Bldg.

COLORADO SPRINGS

Otis & Co.	127 E. Pike's Peak Ave.

COLUMBUS, OHIO

Meeker, Claude	8 E. Broad St.
Ohio National Bank	
Otis & Co.	Spahr Bldg.

DAVENPORT, IOWA

Bechtel & Co., George M.	

DAYTON, OHIO

Geiger-Jones Company, The	1051 Reibald Annex
Loy, Bunstine & Loy	City National Bldg.

DENVER

Boettcher, Porter & Co.	Gas & Electric Bldg.
Bosworth & Co., Edwin M.	First National Bldg.
German-American Trust Co.	

International Trust Co.	. . . .
Keeler Brothers	First National Bldg.
Otis & Co.	Equitable Bldg.
Rollins & Sons, E. H.	International Trust Bldg.
Sweet, Causey, Foster & Co.	Equitable Bldg.
Wilson, Cranmer & Co.	International Trust Bldg.
Wright & Co., James N.	First National Bldg.

DETROIT

Allerton, Greene & King	Dime Bank Bldg.
Bolger, Mosser & Willaman	Dime Bank Bldg.
Bonbright & Co., Inc., Wm. P.	119 Griswold St.
Devitt, Tremble & Co.	Ford Bldg.
First and Old Detroit National Bank	Ford Bldg.
Halsey & Co., N. W.	Ford Bldg.
Hornblower & Weeks	Penobscot Bldg.
Moss & Co., W. E.	Union Trust Bldg.
Security Trust Company	Griswold & Ft. Wayne Sts.
Souders & Co., W. G.	Dime Bank Bldg.
Union Trust Company	. . . .
Wells, Humphrey, Nicol & Ford	Ford Bldg.

ERIE, PA.

Graham & Co.	Penn Bldg.

GREAT FALLS, MONT.

Wells & Dickey Company	. . . .

HARTFORD, CONN.

Barnes & Co., Roy T. H.	77 Pearl St.
Bertron, Griscom & Co.	64 Pearl St.
Estabrook & Co.	36 Pearl St.
Lee, Higginson & Co.	36 Pearl St.
Lisman & Co., F. J.	18 Asylum St.
Parkinson & Burr	73 Pearl St.
Rhoades & Company	36 Pearl St.

INDIANAPOLIS, IND.

Breed, Elliott & Harrison	Fletcher-American Bldg.
Fletcher-American National Bank	. . . .
Fletcher Savings & Trust Co.	. . . .

KANSAS CITY, MO.

Commerce Trust Company	. . . .
Fidelity Trust Company	. . . .
Gary Investment Co., Theo.	Commerce Trust Bldg.

Prescott & Snider	First National Bldg.
Sutherlin & Co., J. R.	Commerce Building.
Wright Investment Co., H. P.	923 Baltimore Ave.

LANCASTER, PA.

Bertron, Griscom & Co.	Woolworth Bldg.

LOS ANGELES

Halsey & Co., N. W.	Hibernian Bldg.
Perrin, Drake & Riley, Inc.	210 W. 7th St.
Rollins & Sons, E. H.	Security Bldg.
Staats Co., William R.	105 W. 4th St.
Torrance, Marshall & Company	111 W. 4th St.

LOUISVILLE

United States Trust Company	

MADISON, WIS.

Boyd Co., Jos. M.	
Madison Bond Company	Washington Bldg.

MILWAUKEE, WIS.

DeWolf Company, John E.	97 Wisconsin St.
Edgar, Ricker & Co.	Free Press Bldg.
First National Bank	
Second Ward Savings Bank	
Wisconsin Trust Company	

MINNEAPOLIS, MINN.

Bond & Goodwin	N. Y. Life Bldg.
Eastman Company, Wm. W.	McKnight Bldg.
Minneapolis Trust Company	
Minnesota Loan & Trust Co.	
Stevens, Chapman & Co.	McKnight Bldg.
Wells & Dickey Company	McKnight Bldg.

MONTREAL

Royal Securities Company, Ltd.	164 St. James St.

NEWARK, N. J.

Fidelity Trust Company	

NEW BEDFORD, MASS.

Tucker, Anthony & Co.	557 Pleasant St.

NEW HAVEN

Bertron, Griscom & Co.	26 Howe St.

NEW ORLEANS

Bertron, Griscom & Co.	208 Carondelet St.
Hibernia Bank & Trust Co.	
Interstate Trust & Banking Co.	
Mortgage Securities Company	Whitney-Central Bldg.
Newman & Son, Isidore	212 Carondelet St.
Whitney-Central Trust & Savings Bank	

NEW YORK CITY

Bachman & Co., H. F.	14 Wall St.
Barstow & Co., Inc., W. S.	50 Pine St.
Bayne, Hine & Co.	55 Wall St.
Bernhard, Scholle & Co.	14 Wall St.
Bertron, Griscom & Co.	40 Wall St.
Beyer & Co.	55 Wall St.
Bickmore & Co., A. H.	111 Broadway
Bigelow & Company	49 Wall St.
Blair & Co.	24 Broad St.
Bonbright & Co., Inc., Wm. P.	14 Wall St.
Bond & Goodwin	111 Broadway
Breitung & Co., Ltd.	11 Pine St.
Brown Bros. & Co.	59 Wall St.
Burgess, Lang & Co.	55 Wall St.
Burr & Co., George H.	14 Wall St.
Byllesby & Co., H. M.	111 Broadway
Callaway, Fish & Co.	37 Wall St.
Campbell, Heath & Co.	5 Nassau St.
Chatham & Phenix National Bank	192 Broadway
Clark, Dodge & Co.	51 Wall St.
Coffin & Co.	44 Pine St.
Coggeshall & Hicks	128 Broadway
Coler & Co., W. N.	43 Cedar St.
Colgate & Co., Jas. B.	36 Wall St.
Colgate, Parker & Co.	2 Wall St.
Compton Company, Wm. R.	53 William St.
Cowan & Co., Kennett	55 Wall St.
Curtis & Company, John D.	55 Wall St.
Curtis & Sanger	49 Wall St.
Doherty & Co., Henry L.	60 Wall St.
Eastman, Dillon & Co.	71 Broadway
Edwards & Sons, A. G.	1 Wall St.
Electric Bond & Share Co.	71 Broadway
Engineering Securities Corporation	37 Wall St.
Equitable Trust Company of New York	37 Wall St.

Estabrook & Co.	24 Broad St.
Federal Utilities, Inc.	60 Broadway
Fisk & Sons, Harvey	62 Cedar St.
Goldman, Sachs & Co.	60 Wall St.
Grant & Co., R. M.	31 Nassau St.
Guaranty Trust Company of New York	140 Broadway
Hallgarten & Co.	5 Nassau St.
Halsey & Co., N. W.	49 Wall St.
Hambleton & Co.	43 Exchange Pl.
Harris, Forbes & Co.	56 William St.
Harris, Winthrop & Co.	15 Wall St.
Hatch & Co., Frederic H.	30 Broad St.
Hayden, Stone & Co.	25 Broad St.
Hodenpyl, Hardy & Co.	14 Wall St.
Hornblower & Weeks	42 Broadway
Hutton & Co., W. E.	60 Broadway
Imbrie & Co., Wm. Morris	61 Broadway
Jackson & Curtis	43 Exchange Pl.
Jones & Co., Chas. H.	20 Broad St.
Kean, Taylor & Co.	30 Pine St.
Kidder & Co., A. M.	5 Nassau St.
Kidder, Peabody & Co.	17 Wall St.
Kissel, Kinnicutt & Co.	14 Wall St.
Knauth, Nachod & Kuhne	15 William St.
Kountze Brothers	141 Broadway
Kuhn, Loeb & Co.	52 William St.
Ladd & Wood	7 Wall St.
Ladenburg, Thalman & Co.	25 Broad St.
Langley & Co., W. C.	10 Wall St.
Leach & Co., A. B.	149 Broadway
Lee, Higginson & Co.	43 Exchange Pl.
Lisman & Co., F. J.	30 Broad St.
Low, Dixon & Co.	37 Wall St.
Ludwig & Crane	2 Wall St.
Mabon & Co.	45 Wall St.
Markoe & Morgan	52 Broadway
Megargel & Co.	25 Broad St.
Meyer & Co., Eugene, Jr.	14 Wall St.
Miller & Co.	29 Broadway
Millett, Roe & Hagen	33 Wall St.
Mitchell & Co., C. E.	37 Wall St.
Montgomery, Clothier & Tyler	14 Wall St.
Morgan & Co., J. P.	23 Wall St.
National City Bank of New York	55 Wall St.
Newburger, Henderson & Loeb	100 Broadway
Nickerson, John, Jr.	60 Broadway
Parkinson & Burr	7 Wall St.

Penington, Colket & Co.	115 Broadway
Potter, Choate & Prentice	55 Wall St.
Pouch & Co.	14 Wall St.
Procter & Borden	27 Pine St.
Read & Co., Wm. A.	28 Nassau St.
Redmond & Co.	33 Pine St.
Remick, Hodges & Co.	14 Wall St.
Rhoades & Company	45 Wall St.
Robinson & Co.	26 Exchange Pl.
Rollins & Sons, E. H.	43 Exchange Pl.
Russell, Brewster & Co.	111 Broadway
Salomon & Co., William	25 Broad St.
Seligman & Co., J. & W.	1 William St.
Smith & Co., W. E. R.	20 Broad St.
Speyer & Co.	24 Pine St.
Stone & Webster	5 Nassau St.
Straus & Co., S. W.	1 Wall St.
Sutro Bros. & Co.	44 Pine St.
Swartwout & Appenzellar	44 Pine St.
Taylor & Co., H. P.	Singer Bldg.
Tillotson & Wolcott Company	14 Wall St.
Trask & Co., Spencer	43 Exchange Pl.
Tucker, Anthony & Co.	60 Broadway
Turnure & Co., Lawrence	64 Wall St.
United States Mortgage & Trust Co.	55 Cedar St.
Walbridge & Co., H. D.	14 Wall St.
Watkins, John H.	2 Wall St.
Weil, Roth & Co.	20 Broad St.
White & Co.	25 Pine St.
White & Co., Inc., J. G.	43 Exchange Pl.
White, Weld & Co.	14 Wall St.
Whitney & Sons, H. N.	17 Broad St.
Williams, Troth & Coleman	60 Wall St.
Winslow, Lanier & Co.	59 Cedar St.
Zimmerman & Forshay	9 Wall St.

OKLAHOMA CITY

Gilbert, George I.	Insurance Bldg.
McMahan, A. J.	Insurance Bldg.

PASADENA

Staats Co., William R.	65 S. Raymond Ave.

PHILADELPHIA

Bachman & Co., H. F.	1512 Chestnut St.
Baker, Ayling & Co.	Land Title Bldg.
Barclay, Moore & Co.	123 S. Broad St.

Barney & Co., Chas. D.	122 S. Fourth St.
Battles & Company	131 S. Fifth St.
Bertron, Griscom & Co.	Land Title Bldg.
Bioren & Co.	314 Chestnut St.
Bonbright & Co., Inc., Wm. P.	437 Chestnut St.
Brown Brothers & Co.	4th & Chestnut
Burr & Co., George H.	421 Chestnut St.
Campbell, Heath & Co.	Lafayette Bldg.
Cassatt & Co.	Commercial Trust Bldg.
Chandler & Co., Inc.	1336 Chestnut St.
Clark & Co., E. W.	321 Chestnut St.
Devitt, Tremble & Co.	1421 Chestnut St.
Drexel & Company	5th & Chestnut Sts.
Elkins, Morris & Co.	Land Title Bldg.
Ervin & Company	Drexel Bldg.
Frazier & Company	132 S. 15th St.
Freeman & Co., M. M.	421 Chestnut St.
Fuqua & Co., W. F.	Land Title Bldg.
Glendinning & Co., Robert	400 Chestnut St.
Goodall, Wister & Co.	1421 Chestnut St.
Graham & Co.	435 Chestnut St.
Halsey & Co., N. W.	1421 Chestnut St.
Harris, Forbes & Co.	Real Estate Trust Bldg.
Harrison & Co., Chas. C., Jr.	5th & Chestnut Sts.
Henry & West	1417 Chestnut St.
Kane & Co., Edward V.	1421 Chestnut St.
Leach & Co., A. B.	115 S. Fourth St.
Lisman & Co., F. J.	Stock Exchange Bldg.
Mellor & Petry	1421 Chestnut St.
Montgomery, Clothier & Tyler	133 S. Fourth St.
Morris Bros.	1421 Chestnut St.
Newbold's, Son & Co., W. H.	511 Chestnut St.
Newburger, Henderson & Loeb	1410 Chestnut St.
Penington, Colket & Co.	608 Chestnut St.
Read & Co., Wm. A.	1421 Chestnut St.
Reilly, Brock & Co.	306 Chestnut St.
Rollins & Sons, E. H.	1421 Chestnut St.
Smith & Co., Edward B.	Broad & Chestnut Sts.
Stinson & Company, R. M.	North American Bldg.
Sullivan Brothers & Co.	Real Estate Trust Bldg.
Townsend Whelen & Co.	507 Chestnut St.
Wright & Co., Jas. N.	1411 Walnut St.
Wurts, Dulles & Co.	125 S. Fourth St.

PITTSBURGH

Callaway, Fish & Co.	Commonwealth Bldg.
Clark & Co., E. W.	Commonwealth Bldg.

Colonial Trust Company . . . . 317 Fourth Ave.
Fisk & Sons, Harvey . . . . Commonwealth Bldg.
Gordon & Co. . . . . Union Bank Bldg.
Graham & Co. . . . . Peoples Bank Bldg.
Harris, Forbes & Co. . . . . Commonwealth Bldg.
Holmes, Bulkley & Wardrop . . . . . . Union Bank Bldg.
Moore, Leonard & Lynch . . . . Frick Bldg.
Taylor & Company, H. P. . . . . 248 Fourth Ave.
Union Trust Company . . . .

PITTSFIELD, MASS.

Swartwout & Appenzellar . . . .

PORTLAND, ME.

Bird & Co., Maynard S. . . . . . . Union Mutual Bldg.
Fidelity Trust Company . . . .
Gilman & Co., Chas. H. . . . . 186 Middle St.
Lee, Higginson & Co. . . . . 184 Middle St.
Payson & Co., H. M. . . . . 93 Exchange Pl.

PORTLAND, ORE.

Halsey & Co., N. W. . . . . Railway Exchange
Lumbermens Trust Company . . . .
Morris Brothers . . . . Railway Exchange

PROVIDENCE, R. I.

Bodell & Co. . . . . 10 Weybossett St.
Hornblower & Weeks . . . . Grosvenor Bldg.
Lee, Higginson & Co. . . . . Turkshead Bldg.

READING, PA.

Clark & Co., E. W. . . . . Colonial Trust Bldg.
Graham & Co. . . . . Colonial Trust Bldg.

RICHMOND, VA.

Miller & Co. . . . .

ROCHESTER

Greene, Myron W. . . . . 8 Exchange St.

ST. LOUIS

Anderson & Co., L. E. . . . . 710 Locust St.
Bowman, Cost & Co. . . . . Third National Bldg.
Burr & Co., George H. . . . . . . Third National Bldg.
Compton Company, Wm. R. . . . . 408 Olive St.

Davis & Co., A. J.	Security Bldg.
Edwards & Sons, A. G.	412 Olive St.
Francis Brothers & Co.	214 N. Fourth St.
Halsey & Co., N. W.	Security Bldg.
Kauffman, Smith, Emert & Co.	Security Bldg.
Little & Hays Investment Co.	303 N. Fourth St.
Mercantile Trust Company	
Mississippi Valley Trust Co.	4th and Pine Sts.
Nickerson, John, Jr.	405 Olive St.
Orthwein, Walter E.	Rialto Bldg.
Smith, Moore & Co.	509 Olive St.
Stifel, Nicolaus, Parsons Investment Co.	207 N. Broadway
Walker & Co., G. H.	307 N. Fourth St.
Whitaker & Co.	300 N. Fourth St.

ST. PAUL

Capital Trust & Savings Bank	5th & Robert Sts.
Wells & Dickey Co.	
White, Grubbs & Co.	State Savings Bank Bldg.

SAN ANTONIO

J. E. Jarratt & Co.	

SAN DIEGO, CAL.

Stephens & Company	Union Bldg.

SAN FRANCISCO

Anglo & London Paris National Bank	
Barth & Co., J.	480 California St.
Bond & Goodwin	454 California St.
Burr & Co., George H.	Kohl Bldg.
Campbell, Heath & Co.	Merchants National Bldg.
Halsey & Co., N. W.	424 California St.
Rollins & Sons, E. H.	First National Bldg.
Salomon & Co., Wm.	Mills Bldg.
Staats Co., William R.	405 Montgomery St.
Sutro & Co.	410 Montgomery St.
Torrance, Marshall & Company	300 Sansome St.
White & Co., Inc., J. G.	Alaska-Commercial Bldg.

SASKATOON, SASK.

Wood, Grundy & Co.	

SCRANTON, PA.

Graham & Co.	Connell Bldg.

SEATTLE

Burr & Co., George H. . . . . Hoge Bldg.
Carstens & Earles . . . . Lowman Bldg.
Price & Co., John E. . . . . Hoge Bldg.

SPOKANE

Spokane & Eastern Trust Co. . . . .
Union Trust & Savings Bank . . . .

SPRINGFIELD, MASS.

Estabrook & Co. . . . . 500 Main St.

TOLEDO

Spitzer & Co., Sidney . . . . Spitzer Bldg.
Stacy & Braun . . . . Second National Bldg.
Terry, Briggs & Slayton . . . . Ohio Bldg.

TORONTO

Dominion Securities Corporation, Ltd. . . . 26 King St., East
Wood Gundy & Co. . . . . C. P. R. Bldg.

TRENTON, N. J.

Graham & Co. . . . . Mechanics Bank Bldg.

TROY

Harris, Forbes & Co. . . . . 11 State St.

UTICA

Clark & Co., E. W. . . . . City National Bldg.

WASHINGTON, D. C.

Bertron, Griscom & Co. . . . . Southern Bldg.

WHEELING, WEST VA.

Mitchell & Stevenson, Inc. . . . .

WILKES-BARRE, PA.

Bertron, Griscom & Co. . . . . . . Second National Bldg.
Clark & Co., E. W. . . . . Miners Bank Bldg.
Fisk & Sons, Harvey . . . . Second National Bldg.

WORCESTER, MASS.

Lee, Higginson & Co. . . . . 338 Main St.

COMMITTEES

AGRICULTURAL CREDITS

Wm. R. Compton, Chairman, Wm. R. Compton Co., St. Louis.
Frank J. Parsons, United States Mortgage & Trust Co., New York.
L. E. Wakefield, Wells & Dickey Co., Minneapolis.
A. C. Foster, Sweet, Causey, Foster & Co., Denver.
Henry Swan, James N. Wright & Co., Denver.

CONSTITUTION AND BY-LAWS

Chas. H. Gilman, Chairman, Chas. H. Gilman & Co., Portland, Me.
G. N. Lindsay, William Salomon & Co., New York.
Louis Curtis, Jr., Brown Brothers & Co., Boston.
K. L. Fleming, Knauth, Nachod & Kuhne, New York.
T. Johnson Ward, Cassatt & Co., Philadelphia.

FINANCE AND AUDITING

George H. Taylor, Chairman, E. H. Rollins & Sons, Chicago.
R. B. Upham, Peoples Trust & Savings Bank, Chicago.
W. E. Colt, Jr., Illinois Trust & Savings Bank, Chicago.
B. C. Lingle, Harris Trust & Savings Bank, Chicago.
R. U. Lansing, National City Bank, Chicago.

FOREIGN RELATIONS

Barrett Wendell, Jr., Chairman, Lee, Higginson & Co., Boston.
A. J. Rosenthal, Bernhard, Scholle & Co., New York.
Chas. S. Sargent, Jr., Kidder, Peabody & Co., New York.
Walter L. Case, Ladenburg, Thalman & Co., New York.
Moreau Delano, Brown Brothers & Co., New York.
Ronald M. Byrnes, National City Bank, New York.

IRRIGATION

John A. Prescott, Chairman, Prescott & Snider, Kansas City.
Frank C. Paine, Union Trust & Savings Bank, Spokane.
John W. Edminson, Wm. R. Staats Co., San Francisco.
D. H. Martin, Fidelity Trust Co., Kansas City.

LEGISLATION

Allen G. Hoyt, Chairman, N. W. Halsey & Co., New York.
Charles W. McNear, C. W. McNear & Company, Chicago.
J. S. Wilson, Jr., J. S. Wilson, Jr., & Co., Baltimore.
M. B. Moon, First & Old Detroit Nat'l Bank, Detroit.
Martin Lindsey, First National Bank, Milwaukee.
Burnett Walker, Harris, Forbes & Co., New York.
J. R. Swan, Kean, Taylor & Co., New York.
J. B. Works, The Tillotson & Wolcott Co., Cleveland.
B. C. Hardenbrook, First Trust & Savings Bank, Chicago.
C. W. Moore, Smith, Moore & Co., St. Louis.

MEMBERSHIP

H. L. Stuart, Chairman, N. W. Halsey & Co., Chicago.
C. T. Williams, Fidelity Trust Co., Baltimore.
C. V. Rich, National City Bank of New York, New York.
Frederick A. Yard, Yard, Otis & Taylor, Chicago.
Charles Counselman, Counselman & Co., Chicago.
Wm. G. Leisenring, National Bank of Republic, Chicago.
H. B. Judson, Northern Trust Company, Chicago.
C. F. Childs, C. F. Childs & Co., Chicago.
A. W. Howard, Howard, Simmons & Co., Chicago.

MUNICIPAL BONDS

Wm. G. Baker, Jr., Chairman, Baker, Watts & Co., Baltimore.
Howard Beebe, Harris Forbes & Co., New York.
C. B. Campbell, A. B. Leach & Co., New York.
Will H. Wade, Fletcher-American Nat'l Bank, Indianapolis.
Simon J. Block, Nelson, Cook & Co., Baltimore.
G. H. Reese, Townsend Scott & Son, Baltimore.
D. W. Myers, Hayden, Miller & Co., Cleveland.
Thos. N. Dysart, Wm. R. Compton Co., St. Louis.
Gerald W. Peck, Emery, Peck & Rockwood, Chicago.

PROGRAM FOR ANNUAL MEETING

Reamy E. Field, Chairman, Field, Richards & Co., Cincinnati.
Edgar Friedlander, Edgar Friedlander, Cincinnati.
J. M. Hutton, W. E. Hutton & Co., Cinncinati.
Harry E. Weil, Weil, Roth & Co., Cincinnati.
H. Elwood Cree, Stacy & Braun, Cincinnati.
William Fox, The Tillotson & Wolcott Co., Cincinnati.
James N. Wright, James N. Wright & Co., Denver.
A. B. Leach, A. B. Leach & Co., New York.
H. B. Clark, White, Weld & Co., New York.

PUBLIC SERVICE CORPORATIONS

John E. Oldham, Chairman, Merrill, Oldham & Co., Boston.
William West, Henry & West, Philadelphia.
Harold Stanley, Guaranty Trust Co. of N. Y., New York.
John W. Hallowell, Stone & Webster, Boston.
H. M. Byllesby, H. M. Byllesby & Co., Chicago.
O. E. Wilcox, W. P. Bonbright & Co., New York.

PUBLICITY

Samuel L. Fuller, Chairman, Kissel, Kinnicutt & Co., New York.
W. E. Stanley, E. W. Clark & Co., Chicago.
Ray Morris, White, Weld & Co., New York.
Charles Lee Scovil, Spencer Trask & Co., New York.
F. W. Ellsworth, Guaranty Trust Co. of N. Y., New York.

RAILROAD BONDS AND EQUIPMENT TRUSTS

John E. Blunt, Jr., Chairman, Merchants Loan & Trust Co., Chicago.
Richard L. Morris, Kean, Taylor & Co., New York.
H. T. Sibley, International Trust Co., Denver.
L. H. Kronthal, Speyer & Co., New York.
Chas. H. Schweppe, Lee, Higginson & Co., Chicago.
John G. Brogden, Strother, Brogden & Co., Baltimore.
Trowbridge Callaway, Callaway, Fish & Co., New York.
John R. Hall, Hallgarten & Co., New York.

REAL ESTATE BONDS

Charles A. Otis, Chairman, Otis & Company, Cleveland.
Walter J. Greenebaum, Greenebaum Sons Bank & Trust Co., Chicago.
Horace B. Matthews, S. W. Straus & Co., Chicago.
W. J. Moore, American Bond & Mortgage Co., Chicago.

RECLAMATION

J. Sheppard Smith, Chairman, Mississippi Valley Trust Co., St. Louis.
Lynn H. Dinkins, Interstate Trust & Bank Co., New Orleans.
Tom K. Smith, Kauffman, Smith, Emert & Co., St. Louis.
A. J. Davis, A. J. Davis & Co., St. Louis.
J. E. Riley, Francis Brothers & Co., St. Louis.

TAXATION

Wm. L. Ross, Chairman, Second Ward Savings Bank, Milwaukee.
Geo. C. Clark, Jr., Clark, Dodge & Co., New York.
H. A. Tingley, Robert Garrett & Sons, Baltimore.
Walter F. Wyeth, Old Colony Trust Co., Boston.
Joseph A. Rushton, Babcock, Rushton & Co., Chicago.
Henry Deeg, Ohio National Bank, Columbus.
Bethel B. Veech, United States Trust Co., Louisville.

TIMBER

Calvin Fentress, Chairman, Lyon, Gary & Co., Chicago.
Herbert Witherspoon, Spokane & Eastern Trust Co., Spokane
W. A. Durst, Minnesota Loan & Trust Co., Minneapolis.
H. C. Olcott, Cont. & Com'l Trust & Sav. Bank, Chicago.
H. A. Cleaver, Devitt, Tremble & Company, Chicago.
F. A. Brewer, F. A. Brewer & Co., Chicago.

INDEX

INDEX